MINORITY PARTICIPATION IN THE SMALL BUSINESS ADMINISTRATION'S DEVELOPMENT COMPANY PROGRAMS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

OAKLAND, CA, NOVEMBER 28, 1984

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MINORITY PARTICIPATION IN THE SMALL BUSINESS ADMINISTRATION'S DEVELOPMENT COMPANY PROGRAMS

WEDNESDAY, NOVEMBER 28, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Oakland, CA.

The committee met, pursuant to notice, at 9:13 a.m., in room 115, City Hall, One City Hall Plaza, Oakland, CA, Hon. Parren J. Mitchell (chairman of the committee) presiding.

Mr. MITCHELL. This morning the Committee on Small Business, which I have the honor to chair, will conduct a hearing on the participation of minority-owned businesses in the Small Business Administration's Development Company programs. These programs are authorized by sections 502 and 503 of the Small Business Act of 1958, and they have been an important source of long-term fixed asset financing for small businesses for many years. Since the 502 program's beginning in 1958, local development companies have provided more than $1.25 billion in more than 8,300 financings. Since the enactment of the 503 program in 1980, certified development companies have provided more than $730 million in over 3,650 financings, which, when leveraged with private sector funds, have resulted in more than $1.8 billion in community development projects.

This $3 billion is just part of the picture. It must be laid alongside of the returns that you can't even measure, the returns in terms of job creation, increased productivity, innovation, and technological achievement.

The purpose of the 503 program—that's the newer program—is essentially the same as the older 502 program: Long-term fixed asset financing to help small businesses in plant acquisition, construction, conversion, or expansion; and in the purchase of machinery and equipment.

It is important to note that the $730 million in 503 financings approved so far, and the $1.8 billion in projects which they have enabled, are provided practically at no cost to the taxpayer.

In fact, because development company funds are unsubsidized, the main costs to the Government are relatively minor administrative expenses.

We had a total of $350 million available to SBA for the 502 and 503 programs last year. It was used up, and therefore the Congress approved an additional $100 million for fiscal year 1985, so that $450 million will be available and program demand can continue to

be met. This was more than the Reagan administration wanted; it was above its request; and given the administration's stated intention to drastically reduce SBA financial assistance programs, it is uncertain what the future of the programs will be. However, I want to commit myself to continue these programs, and to fund them on the basis that they will be meaningful instruments in community development.

When we resume in the 99th Congress in January, my committee will be considering legislation to extend the Small Business Administration's Development Company Programs. I am very much in favor of doing that, but I do have a concern, and a very major one. That concern is the extremely low level of participation in the 503 program by minority-owned businesses.

SBA records indicate that, since the program's inception, only 5.2 percent—only 5.2 percent of all certified development company financings have gone to minority-owned businesses; and that is not justified.

And, certainly, I am not going to press hard for the continuation of these programs unless I am convinced that minorities are going to get an equitable share of participation.

Let me pursue that line just a little bit further. In the fiscal year 1980—that's the year before the 503 program began operating, more than 32.7 percent—more than 32.7 percent of 502 local development company financings went to minority-owned businesses.

As the 503 program has grown, the percentage of minority business participation has steadily declined; and I want to find out why.

We are down now to 5.2 percent, and I am afraid that even that 5.2-percent figure is inflated. I don't believe it is fair to exclude minority business from participation in important and otherwise successful programs.

The 503 program was designed as a tool to spur economic development and job creation. And certainly minority businesses can play an important role in achieving this goal.

Now, I wanted to have the hearings here because, according to the records of the Small Business Administration, the San Francisco district office has approved more 503 financings to minority-owned businesses—it's 23—than any other office in the Nation.

Also, in this area, the percentage of minority 503 financings—16.2 percent—is more than three times the national average.

I want to find out how you do it, why it can work in this area, and why we have such a miserable record in the other parts of the Nation, insofar as the 503 program is concerned.

I am pleased to be here, especially in Oakland. There is a city-affiliated 503 company here, the Oakland Business Development Corp.; and, as I recall, it just received its certification only a few months ago.

This morning, we will hear from representatives from the cities of Oakland, San Francisco, and Pittsburg, CA, and from representatives of each of the certified development companies authorized to operate in the Greater San Francisco Bay Area. And certainly, we want to hear from the small business clients who have utilized these services. Although the Oakland Business Development Corp. has not yet had time to develop its 503 portfolio, I understand that

it renders assistance to small businesses in other fashions, and we will hear from a panel of clients that has been assisted by this city-operated program.

Finally, we will hear from one of the most active commercial lenders participating in the 503 program, the Wells Fargo Bank.

I will have additional statistical material that I want to incorporate into the record, and I will give you that material separately.

Before we hear from Congressman Hayes, I would like to introduce the members of the Small Business Committee staff who are here.

To my right is Mr. Tom Powers, the general counsel for the committee; Joe Sobota, who set all of this up, a key staff member; Major Clark is lurking in the back there—that's Major Clark, the chief of staff for the committee.

Also, before we hear from Congressman Hayes, I want to thank the city officials and others who have extended courtesies to me and the members of the Small Business Committee staff for the kindnesses you have shown us since we have been here.

[Prepared statement of Chairman Mitchell:]

OPENING STATEMENT OF CHAIRMAN MITCHELL

This morning the Committee on Small Business will conduct a hearing on the participation of minority-owned businesses in the Small Business Administration's development company programs. These programs, authorized by Sections 502 and 503 of the Small Business Investment Act of 1958, have been an important source of long-term, fixed asset financing for small businesses for many years. Since the 502 program's inception in 1958, local development companies have provided more than $1.25 billion in more than 8,300 financings; since enactment of the 503 program in 1980, certified development companies have provided more than $730 million in over 3,650 financings which, when leveraged with private sector funds, have resulted in more than $1.8 billion in community development projects.

These impressive statistics are only part of the story, however. These $3 billion in development company projects have provided incalculable returns in job creation, increased productivity, innovation and technological achievement. This, in turn, has resulted in expanded sales and profitability for development company clients and in an increased tax base for all levels of government. Still other benefits flow from these programs, such as the reduction of unemployment roles, meaningful job training, diversification of local economies and provision of needed goods and services in underserved communities.

Recognizing the achievements of the 502 local development company program and the potential for even greater results through increased leverage of scarce government resources, the committee authored and secured enactment of legislation authorizing the 503 certified development company program in 1980. The purposes of the 503 program are essentially the same as those of the older 502 program: long-term, fixed asset financing to help small businesses in plant acquisition, construction, conversion or expansion and in the purchase of machinery and equipment. However, the 503 program's combination of long-term, below market, fixed interest rates and low equity injection requirements, together with a first mortgage position offered commercial lenders for their 50 percent exposure, has resulted in a financing package of great appeal to both small business borrowers and commercial lenders.

The success of the 503 program is evidenced by its unprecedented growth. In the program's first year of operation, fiscal 1981, 187 certified development company financings were approved for $34.7 million; in fiscal 1982, 476 financings were approved for $81.3 million; in fiscal 1983, 1,348 financings were approved for $269.8 million; and in fiscal 1984, 1,522 financings were approved for $318.0 million. During the same period, Section 502 local development company financings averaged $28.3 million annually.

It is important to note that the $730 million in 503 financings approved so far and the $1.8 billion in projects which they enabled were provided at practically no cost to the taxpayer. In fact, because development company funds are unsubsidized, the main costs to the government are relatively minor administrative expenses.

Because all of the $350 million available for SBA's 502 and 503 programs was used last year, the Congress approved an additional $100 million for fiscal 1985, so that $450 million will be available and program demand can continue to be met. However, this amount was in excess of the Reagan administration's request; and given the administration's stated intentions to drastically reduce SBA's financial assistance programs in future years, it is uncertain what future program levels will be.

The committee will soon be considering legislation to extend SBA's development company programs. As part of this process and in exercising the committee's oversight responsibilities, I instructed the staff to conduct the first extensive review of the 503 program since its inception. Although I believe most, if not all, committee members have been extremely supportive of this program and are proud of its achievements, our examination has disclosed a few areas which may be in need of "fine-tuning" in order to insure that it operates as Congress originally intended.

One area of particular concern is the extremely low level of participation in the 503 program by minority-owned businesses. SBA records indicate that since the program's inception, only 5.2 percent of certified development company financings have gone to minority-owned businesses. Just as disturbing is the fact that in fiscal 1980, the year before the 503 program began operating, more than 32.7 percent of Section 502 local development company financings went to minority-owned businesses. As the 503 program has grown, the percentage of minority participation in development company projects has steadily declined to a small fraction of pre-503 levels.

I do not believe it is fair to exclude the minority business sector from participation in this important and otherwise successful program in such a wholesale fashion. The 503 program was intended to be a tool to spur economic development and job creation, and certainly minority businesses can play an important role in achieving this goal. In fact, minority-owned businesses may be better able to accomplish these objectives because of their personal experience in having to work harder for what they have earned and because of their sensitivity to those in our society most in need.

SBA records indicate that its San Francisco District Office has approved more 503 financings to minority-owned businesses, 23, than any other office in the Nation. Also, the percentage of minority 503 financings, 16.2 percent, is more than three times the national average. For these reasons, the committee selected the San Francisco Bay area as the location of this hearing concerning SBA's development company programs and, in particular, minority participation in them. I am pleased to meet in Oakland, where a city-affiliated 503 company, the Oakland Business Development Corporation, received its certification only a few months ago.

Today we will hear from representatives of the cities of Oakland, San Francisco and Pittsburg, California and from representatives of each of the certified development companies authorized to operate in the greater San Francisco Bay area, together with small business clients whom they have assisted. Although the Oakland Business Development Corporation has not yet had time to develop its own 503 portfolio, I understand it has several other programs to assist small businesses and we will hear from a panel of its clients assisted through a city program which could be used in conjuction with the SBA programs. Finally, we will hear from the National Association of Black and Minority Chambers of Commerce and from one of the more active commercial lenders participating in the 503 program, the Wells Fargo Bank.

Mr. MITCHELL. Congressman Hayes, I want to take this opportunity to publicly congratulate you for your recent incarceration in the Washington jail. I think it was a tremendous thing for you to have done. This Nation must begin to speak out against the racist policies of apartheid. We will not countenance an escalation in the brutal treatment of blacks in South Africa by the Botha government.

As I understand it, he just got out of jail at 11:30 yesterday morning. I didn't think he would make it, but he is a dedicated member of the committee, and is here.

Also, while I am congratulating you, I have received my assignment, that I am to go to jail next week; and it will be an honor and a pleasure for me to do so, to join with you and the others who have made this kind of dramatic presentation of our concerns.

Congressman Hayes.

[Applause.]

OPENING STATEMENT OF HON. CHARLES A. HAYES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. HAYES. Mr. Chairman, just a small reference to our efforts in Washington yesterday to meet with the Ambassador from South Africa, which resulted in my being jailed for not leaving the premises when the Secret Service ordered us to do so.

This is the beginning of what I see is a necessary move which not just me, but a lot of people believe is needed to focus world attention, and particularly the attention of our Government, on the plight of the people who are the majority in South Africa who happen to be black.

There are 13 people in jail there. We don't know whether they are still living or not. Sixty-four have already died while in jail, and we think it is time that at least our Government begins to stop being selective about the issue of human rights.

The life of a person, the welfare of a person who happens to be black in South Africa or anywhere else in the world is as important as the life of a trade unionist—and these 13 are trade unionists—in Poland.

And we just think the only way to focus attention on this is to begin to create some pressures; we have to do certain things. I am glad to hear—I had no doubt—if you are requested you would be joining the army of those resisters.

But, first, let me just say, you people who are small business entities are quite fortunate, and particularly minority businesses, of having someone like Parren Mitchell to head up this committee, one who has the dedication and convictions to pursue the injustices and offer whatever assistance that he can through the Federal Government to help you.

And I would like, Mr. Chairman, to thank you for providing me with an opportunity to get a first hand view of your efforts to review the Small Business Administration 502 and 503 programs.

These programs are valuable to the continuance and success of the thousands of businesses across this country, and should definitely be adequately funded when they come up for reauthorization in 1985.

And, therefore, I am very grateful to participate directly in the important work of monitoring the operations of these programs and the delivery of these vitally needed services for our minority businesses.

Over the last year and a half that I've been in Congress, I have had to join with other Members of Congress to fervently resist the administration's efforts to roll back past gains.

Enough has already been done to cripple some of the most positive and forward-looking programs. The Reagan administration has tampered with civil rights, threatened world peace; and numerous reports show that this administration has done more to stifle minority business' efforts to achieve economic parity than any other administration in the last 20 years.

Our communities are suffering from cutbacks in basic human survival programs, and elimination of thousands of jobs in both the Government service and the private sector.

The section 502 and 503 programs can do a lot to improve these awful conditions in our community, and I feel strongly that we should work hard to preserve, and, if possible, to strengthen the legislation governing them.

You know, Mr. Chairman, that all the legislation in the world, and all the hands are not enough unless they are backed by practical dedication to service.

That's why I feel it is imperative for all of us to work hard and to educate and to support minority businesses as they try to survive and progress.

Each month in Congress we receive hundreds of letters and calls and visitors in the office. The calls are many and varied. I hear from veterans who can't get benefits, students who need financial aid, community groups seeking neighborhood development aid, and business men and women seeking Federal contracts.

We are faced with continued reduction in vital programs. In 1983 the percentage of contracts to minority business enterprises decreased from the 1982 level to the level of only 3.1 percent.

In spite of these belt-tightening efforts of the Reagan administration, there are still millions of dollars in Federal aid still flowing into our community that we must tap and get our part of.

We all know that small business remains the principal creator of jobs in the private sector. In spite of what is being said and the rosy pictures that are being painted by this administration, unemployment remains high in many areas of this country, and minorities are the victims of the failure to find jobs.

In addition, they also provide a large share of on-the-job training for young people. Minorities are increasingly becoming entrepreneurs. Therefore, we must make it a priority to ensure that minorities and minority businesses receive an equitable share.

That is the only way we will be able to rid ourselves of the economic plight, particularly in the urban communities of our Nation.

Mr. Chairman, let me again thank you for this opportunity to learn from the experiences discussed by our witnesses today. I hope that we will be able to determine the means to increase minority participation in these programs.

Thank you.

Mr. MITCHELL. Thank you very much, Congressman Hayes, and we'll move right to our first panel.

And that first panel, if you will join us at the witness table, consists of Mr. George Williams, who is the director of the office of economic development and employment for the city of Oakland which has been so gracious to us; Ms. Jeanne Brooks, deputy director for economic development, mayor's office of housing and economic development, for the city of San Francisco; and Mrs. Mary Erbez, assistant manager and city clerk for the city of Pittsburg, CA.

All of you are busy people. I know that, and I always feel a little guilty when I ask people to come to testify at these hearings, but it is critical that we hear directly from you.

So, we thank you for taking time from your busy schedules, and we will hear from you now.

If you have prepared copies of testimony, I would appreciate it if you would give us a copy of your prepared testimony.

Mr. Williams.

TESTIMONY OF GEORGE WILLIAMS, DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT AND EMPLOYMENT, CITY OF OAKLAND, CA

Mr. WILLIAMS. Thank you, Chairman Mitchell, and, on behalf of the Mayor of our city, I would like to welcome you and Congressman Hayes, your general counsel, and the staff of the Small Business Committee to our city; and we hope that you are faring well here.

I would like to say initially that we are most pleased that you have selected Oakland as one of the sites for these most important hearings.

As the director of the office of economic development and employment for this city, I am especially grateful to speak to you today and to express directly our concern for the shifting sands that seem to be eroding a major cornerstone in our small business development plans, especially here in Oakland.

We have had a long commitment, here in the city of Oakland, to business development. It was manifested first in 1978 by the creation of the office of economic development and employment. The business development division of our office is set up primarily to assist small businesses and that assistance is provided through direct financial, management, and technical assistance.

We have participated in the SBA programs, primarily the 502 and 503 programs, since our inception in 1978.

We have committed community development block grant funds to be used as a portion of the small business equity injection for both the 502 and 503 programs.

We have established and continue to fund the Oakland Business Development Corp., which has recently—as you have indicated—become a certified development company, and they will be making a presentation today and will also have some of their clients as witnesses.

We have been touted recently as one of the country's most integrated cities. Our minority population here is 64 percent, 47 percent black. The remaining minority population is primarily Asian and others. And even as a combined population of 64-percent minority, only 16 percent of the SBA loans in this area have gone to minority businesses; and although as you indicated, that is about three times the national average across the country, we feel that in an area, in a city where the population is largely minority, a much larger percentage should be going to minority businesses.

In our professional judgment, the proposed regulations will further limit the development of small, minority entrepreneurship because they would impose stiffer banking requirements, and they will serve to withdraw limited fixed asset financing from the hands of potential startup and small businesses.

We also feel that the new regulations will greatly restrict the types of businesses eligible for loans. The new restrictions seem to be targeted to service businesses and to startups, and may further restrict, or even eliminate minority business people from the SBA 503 program.

As Congressman Hayes has indicated, small businesses account for the lion's share of the work force in Oakland and across this Nation; and at a time when Government programs are being selectively slashed and reduced, minority business development needs to be actively cultivated and encouraged.

We suggest that this committee consider alternatives that will strengthen the SBA programs and their accessibility to minority business people.

There needs to be a stronger marketing program oriented toward minorities, getting minorities invoived in the SBA program.

We feel that there should be some stated minority goals, goals set out that SBA will seek and the community development corporations will seek to achieve relating to minority participation in the SBA program.

Consideration needs to be given to a greater leniency in the loan value of the job creation ratio. Fifteen thousand dollars per job is a prohibitively low figure for many big businesses, and when we look at small businesses, it is almost absolutely restrictive.

Some attention needs to be given to giving credit for job retention in addition to job creation.

We have created a program in Oakland where we set aside community development funds to provide a portion of the local injection. We feel that SBA should give some consideration to piggybacking some direct loan moneys so that, instead of the SBA contribution being 40 percent, it could be pumped up to 45 percent with some direct loan money.

We are in agreement with the amendments to the SBA programs that will be set forth by the local community development corporations. You will hear testimony today that will show where the Small Business Administration has in some instances failed to meet the needs of minority business interests, where it has been of some assistance, and ways in which it can more effectively attract and develop minority entrepreneurship in the immediate future.

I would like to again extend a welcome to you on behalf of Mayor Wilson, and to let you know that if there is any assistance that the city can provide, the staff of the mayor's office, the staff of my office, the staff of the entire city is available to assist you in this hearing and in your efforts. Thank you.

Mr. MITCHELL. Thank you very much. I regret that I will not have an opportunity to see the mayor, but please convey to him our respect and our thanks for his cooperation; and that is from all of us.

[Mr. Williams' prepared statement, with attachments, follows:]

PREPARED STATEMENT OF GEORGE WILLIAMS, DIRECTOR, OFFICE OF ECONOMIC DEVELOPMENT AND EMPLOYMENT, CITY OF OAKLAND, CA

On behalf of Mayor Lionel Wilson, I extend a welcome to you, Chairman Mitchell, and to all Small Business Committee members. We are pleased that you have selected Oakland as one of the sites for these most important hearings. As director of

Oakland's Department of Economic Development and Employment. I am especially grateful for being able to speak to you directly to express our deep concern for the shifting sands that are eroding a major cornerstone in our small business development plans for Oakland.

Oakland has long had a commitment to business development, which was manifested in the creation of the office of economic development and employment in 1978. The business development division of our office is set up to assist small businesses through direct financial assistance and through management and technical assistance. We have participated in SBA programs since our inception—primarily as packagers of 502 loans. We have committed community development block grant funds to be used as a portion of the small business equity injection for 502 and 503 loans. We established and continue to fund the Oakland Business Development Corporation, which has recently become a certified development corporation. OBDC will be testifying here today.

Oakland has been referred to as one of this country's most integrated cities, boasting a black majority population of 47 percent and 14 percent Asian and other minority. Even as a combined population of 64 percent, the minority businesses have received only 15 percent of the SBA loans in this area, which is still 5 to 10 percent higher than the rates in other cities across the Nation.

In our professional judgment, the proposed regulation changes will further limit the development of small, minority entrepreneurship because they impose stiffer banking requirements, will serve to withdraw limited fixed assets financing from the hands of potential startup and small businesses, and will greatly restrict the types of businesses eligible for loans. The restrictions seem targeted to service businesses and startups, and may seem to virtually eliminate minority business people from the 503 program altogether.

Small businesses account for the lion's share of the work force in this country. At a time when government programs are being selectively slashed, minority business development needs to be actively cultivated and encouraged.

We suggest that this committee consider alternatives that will strengthen SBA programs and their accessibility to minority business people. Stronger marketing of the programs, with stated goals for minority participation would help increase minority participation. Consideration should also be given to greater leniency in the loan value to job creation ratio. Fifteen thousand dollars per job is a prohibitively low figure for many small businesses, especially startups. We also suggest that a plan similar to Oakland's be researched. SBA could augment its 503 loan funds with other direct loan moneys, so that SBA's financing would constitute 45 percent of project costs rather than 40 percent. We are in agreement with amendments to the SBA programs that will be set forth by our local community development corporations. You will hear testimony today that will show where the Small Business Adminstration has failed to meet the needs of minority business interests in the past, where it has been of assistance, and ways in which it can more effectively attract and develop minority entrepreneurship in the immediate future.

Mayor Wilson's office and my department are available to you for any further assistance in protecting the development of our endangered and vital minority business communities.

OAKLAND BUSINESS DEVELOPMENT CORPORATION

PROFILE

The Oakland Business Development Corporation (OBDC) was incorporated in 1979 as a business loan and development financing organization. OBDC's primary purpose is to assist in the development and expansion of small business establishments located in Oakland and secondarily to assist minority developers with joint venture financing. OBDC provides services in the following categories:

DIRECT LOANS TO SMALL BUSINESS

OBDC provides direct financing principally for existing businesses involved in manufacturing, processing and distribution of products. Through the Neighborhood Economic Development Fund, OBDC funds essentially two major classifications of loans:

- Venture Capital Loans for inventory, equipment, supplies and other costs relating to initial operating funds for a new business.
- Intermediate and long term loans for acquisition of major equipment and working capital.

SBA'S DEVELOPMENT CERTAIN FINANCING

- Under SBA's 502 and 503 programs, loans are packaged and processed by OBDC for participation with a commercial bank and the City of Oakland's Office of Economic Development and Employment. These programs are available for the purpose of land acquisition, construction, rehabilitation, plant expansion and fixed asset financing.

EQUITY PARTICIPATION

- OBDC can participate as an equity owner of low income located in the Central Business District or an equity owner of businesses within a neighborhood commercial district.
- OBDC can also participate as an equity owner of industrial properties when a small business agrees to remain in Oakland or wants to expand in Oakland.

436 14th St. Suite 1205 The Central Building Oakland, CA 94612 415 763 4297

DEVELOPMENT FINANCING

- OBDC can act as a joint-venture developer partner on certain construction projects in need of additional equity capital and development assistance.

- OBDC can and has acted as a limited partner in a commercial real estate development venture with general partners consisting of a developer and a contractor and other limited partners or a combination of entities.

MANAGEMENT AND TECHNICAL ASSISTANCE (M & TA)

OBDC offers a variety of M & TA services as follows:

- Market analysis (surveys)
- Development and operations analysis of a proposed business
- Merchandising and advertising assistance
- Accounting systems and record keeping
- Business planning

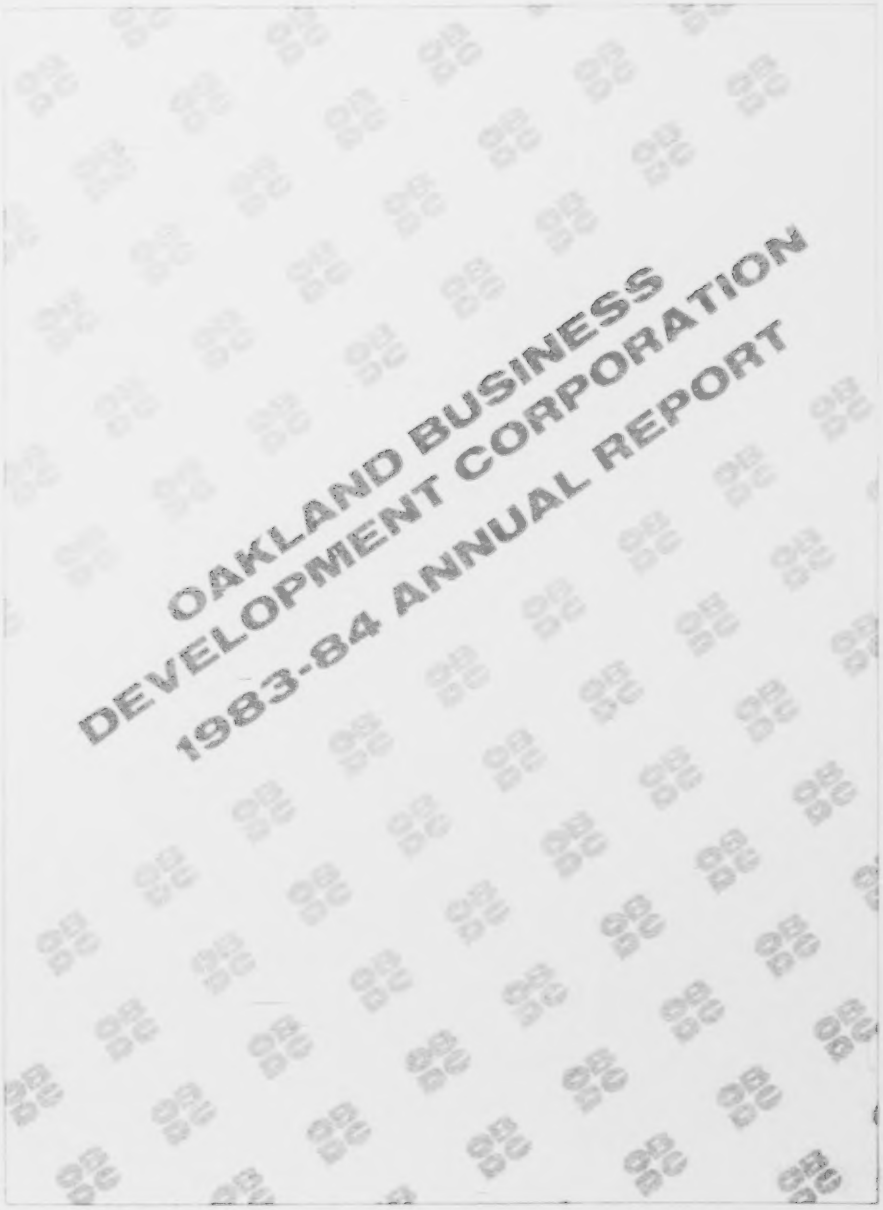
BUSINESS ASSETS ACQUISITION PROGRAM

The OBDC Small Business Acquisition Program is designed to accomplish the following:

- Identify and maintain an inventory of business opportunities (sellers/properties) and have this data readily accessible to prospective small business entrepreneurs.

- Provide small business counseling and business planning assistance to new entrepreneurs purchasing an existing business.

- Assist new entrepreneurs who are successful in acquiring a business with business loans and or real estate financing.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EDDIE MAE JONES
JONATHAN LONG
BILL WRIGHT
SAMUEL NORMAN

ARNOLD L. BELLOW
PRESIDENT & EXECUTIVE DIRECTOR

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This report covers the period from July 1, 1983 to June 30, 1984

F

Completed for the annual report for the 1983-84 fiscal period, this document includes information on the following additional topics:

- Financial Services
- Leveraging Public Dollars with the Private Sector
- Management Services and Technical Assistance
- Commercial Property Investment Objectives
- Special Projects
- Lessons Achieved in OBDC's Participation Loan Program
- Three-Year Comparative Loan Collection History
- Goals for the Future
- Total Program Expenditures by Category

OBDC believes this added information will provide greater insight on the overall program performance for the 1983-84 fiscal period.

Much of the success of the Oakland Business Development Corporation can be attributed to the collective support of Mayor Lionel J. Wilson and each of the City Council persons. The staff of the Office of Economic Development also employment provided assistance throughout the 1983-84 fiscal year which enabled OBDC to achieve many of the accomplishments reflected in this annual report. Also, the Seven Community Development District Boards, OBDC's Board of Directors and the Economic Development Advisory Commission were extremely supportive and helpful during the fiscal period. We totally welcome and enthusiastically look forward to their continuing support.

Finally, we would also like to thank the many corporations, individuals and businesspeople who have made significant contributions to the Oakland Business Development Corporation. Your help has been of great value to us and we deeply appreciate your efforts.

Donald R. White

Arnold L. Bellow, *President and Executive Director* (left) and Donald R. White, *Chairman*

OBDC AT-A-GLANCE

Business Structure

Tax Status

Board of Directors

Geographical Emphasis

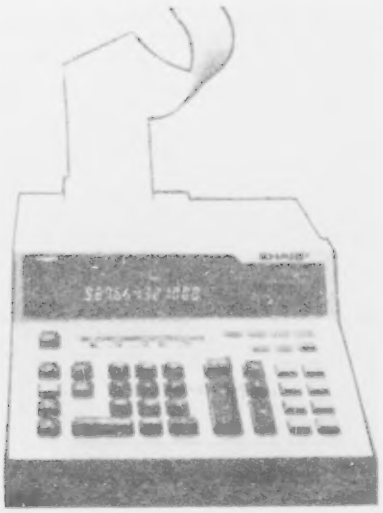
Principal Source of Funds

	$954,579
	$291,267
	$663,309

Major Business Functions

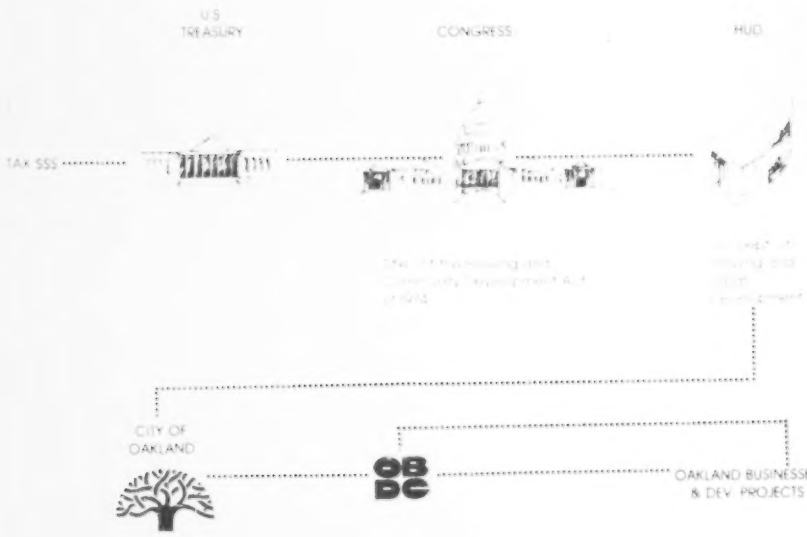
-
-
-
-
-

Staff



OBDC works with conventional lenders and all levels of government

OBDC PUBLIC SECTOR FLOW-OF-FUNDS CHART



PROGRAM ACTIVITIES

- Revolving Loan Fund
- Loan Packaging Service
- Management and Technical Assistance
- SBA 7(a) Loan Program
- SBA 504/ Loan Program
- SBA 503 Loan Program
- Project Related Investments & Community Equity Participation
- Spin-off Projects
- Program Administration

RETURN OF FUNDS

- Loan Repayment (Principal, Interest)
- Loan Fees
- Interest Income
- Return on and Return of Project Related Investments

MANAGEMENT AND TECHNICAL ASSISTANCE SERVICES

D

In certain instances, OBDC actually helps prospective entrepreneurs get started in business.

PROJECT RELATED INVESTMENTS

A

Project Related Investments	Gross Equity Value
■	
■	
■	
■	
TOTAL	

These projects must demonstrate profitability and provide jobs

COMMERCIAL PROPERTY INVESTMENT OBJECTIVES

As previously stated, OBDC has a responsibility to invest in development projects. The following investment objectives are in addition to its economic development objectives.

Capital Appreciation Objective

Cash Distributions Objective

Investment Tax Credits (ITC) Objective

Equity Build up Objective

S

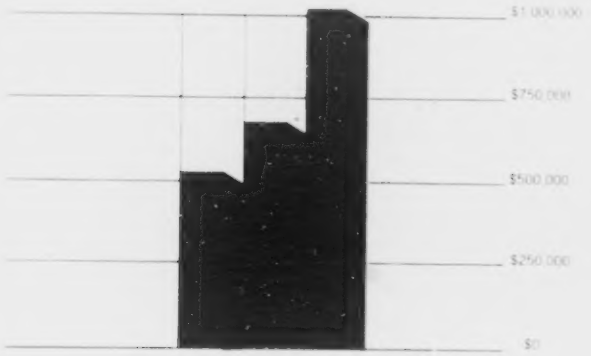
the goal for 1984 is a ratio of 3 to 1.

ORDC successfully leveraged loan funds by a ratio of 2.5 to 1.

ORDC loan committee reviewing applications

LOANS OUTSTANDING

NEDF Loans Committed and Outstanding 1981-82 1982-83 1983-84



*$517,530 $695,129 $1,022,910

OBDC's portfolio of NEDF loans outstanding for the three year period ended June 30, 1984 averaged an annual increase of 33%.

*Estimated to be considered accurate within 2.5% of stated amount

LOAN PORTFOLIO

A

1

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

*Indicates more than one business establishment in that particular line of business.

LENDERS ACTIVE IN OBDC'S PARTICIPATION LOAN PROGRAM

T

- Citizens Bank
- Bank of Oakland
- Union Bank
- Bank of Canton
- Sumitomo Bank
- Gibraltar Savings
- Imperial Thrift & Loan
- Government Funding (Co-ed OBDC)
- Bank of America
- Rabobank Bank
- Summit Bank
- City Federal Savings
- Wells Fargo Bank
- Hibernia Bank

THREE YEAR COMPARATIVE LOAN COLLECTION HISTORY

*These 16 loans were all approved and funded by the previous administration and were in default at 6-30-82.

[redacted]

OBDC is a 4% equity owner in the Office Building III located in the City Center Project Development Area. OBDC also expects to be an equity participant in Office Building IV which is presently under construction.

A

Special Project #1 Run For Life

Special Project #2 EDAC Annual Awards Dinner

Special Project #3 Mayor's Summer Jobs Program

Special Project #4 Development of a Five Year Plan for Self-Sufficiency

50-902 O - 85 - 2

OBDC

PROGRAM EXPENDITURES BY CATEGORY

MAJOR ACCOMPLISHMENTS DURING FISCAL YEAR 1983-84

- Packaged 9 NEIF loans and funded 6 of the packages as compared with 4 out of 8 loans
- Packaged four (4) SBA 502 loans for $450,000 in value
- Packaged two (2) SBA 7(a) conventional loan requests for $900,000 in value
- Provided management and technical assistance to more than 350 clients consisting of existing small business persons as well as prospective small business persons
- Leveraged NEIF loan funds with private sector funds by a ratio of 2.5 to 1 as compared to a ratio of 2 to 1 for the previous year (FY82-83)
- Seven different lending institutions provided participation financing with CBDC which for the first time resulted in over two million dollars in commitments secured by CBDC
- Assisted loan clients in retaining and creating over 100 permanent jobs resulting in a figure of approximately $42,000 of public dollars spent for each job created and retained
- Continued to be aggressive in the collection of loan payments by improving performance to 58% of the total loan portfolio in the D.S.O. 30+ category as compared to 51% for the previous year
- Began development of a Five Year Self Sufficiency Plan in an effort to totally sustain and expand CBDC's future program activities
- Formed a new not for profit corporation (Oakland CertMed Development Corporation) in order to administer the SBA 503 commercial real estate loan program
- Participated in the City of Oakland's Economic Development Advisory Commission's First Annual Awards Dinner which grossed over $26,000 in private contributions
- Helped to sponsor a total of five (5) small business related seminars during the course of the year
- Became an equity participant in the Washington Inn Hotel project adjacent to the new Oakland Convention Center and the "Old Oakland" project
- Continued marketing efforts by making presentations to the Seven Community District Boards, the Economic Development Advisory Commission bankers, and other lending sources
- Successfully collected over $300,000 in loan payments which will be used to help fund future loan demand
- Established a strong business development and financing relationship with the U.S. Small Business Administration (SBA) and the California Regional Urban Development Corporation

GOALS FOR THE FUTURE

During the past two years, the Oakland Business Development Corporation has developed many program goals and has consistently met or exceeded those goals. In the very near future, OBDC has developed a number of long-term goals that are attainable in the next five years. Moreover, these long term goals are directly related to the achievement of the two year and one year objectives.

As of 1985, the overriding thrust has been toward expanding existing program activities and implementing new projects that will help diversify OBDC's revenue base. The following list of general goals will be refined and expanded upon during the course of the 1984-85 fiscal year.

- Leverage $675,000 from future bank participation in the private sector dollars for every one of our dollars.
- Make a minimum of $50,000 in equity contributions from foundations, corporations and individuals to help fund private market investments.
- Increase the number of participating lending institutions from 8 to 20 to facilitate the expansion of the SBA 7a, 503 and 504 programs.
- Expand small business management services to accommodate up to 4000 clients per year.
- Acquire and develop major industrial sites in the Coliseum industrial area for the purpose of constructing an incubation "workspace" facility to house 10-15 emerging small businesses engaged in light manufacturing, distribution or processing of raw materials.
- Assist the Board of Directors of the newly formed Oakland Certified Development Corporation in fully implementing the SBA 504 program.
- Continue to improve on loan collection performance as has been the case for each of the past three years.

FINANCIAL STATEMENT

REPORT OF MANAGEMENT ON FINANCIAL STATEMENTS

E

CLARENCE T. NATHANIEL
Certified Public Accountant
4002 Rusting Ave.
Oakland, CA 94605
(415) 530-8209

OAKLAND BUSINESS DEVELOPMENT CORPORATION

BALANCE SHEET - JUNE 30, 1984

ASSETS

CURRENT ASSETS		
	$ 74,627	
	203,113	
	51,000	
	1,516	
	87,300	
	3,195	
		$420,751
FIXED ASSETS (Note 1)		
	15,836	
	14,042	
	7,409	
	37,287	
	15,117	
		22,170
OTHER ASSETS		
	211,000	
	351,655	
	562,655	
	51,000	
		511,655
TOTAL ASSETS		$954,576

OAKLAND BUSINESS DEVELOPMENT CORPORATION

BALANCE SHEET – JUNE 30, 1984

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES		
[illegible]	$ 8,239	
[illegible]	275,000	
[illegible]	4,654	
[illegible]	2,700	
[illegible] (Note 4)	674	
[illegible]		$291,267
COMMITMENT (Note 4)		
FUND BALANCES		
[illegible]	235,376	
[illegible]	427,933	
[illegible]		663,309
TOTAL LIABILITIES AND FUND BALANCE		$954,576

[illegible] ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

OAKLAND BUSINESS DEVELOPMENT CORPORATION

STATEMENT OF SUPPORT, REVENUE AND EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1984

SUPPORT		
[illegible]	$321,478	
[illegible]	321,788	
[illegible]		$643,266
REVENUE		
[illegible]	45,000	
[illegible]	33,678	
[illegible]	12,478	
[illegible]	10,000	
[illegible]		101,156
[illegible]		744,422
EXPENDITURES		
Program		
[illegible]	321,788	
[illegible]	17,556	
[illegible]	24,792	
[illegible]	17,571	
[illegible]	8,517	
[illegible]		490,224
Services		
[illegible]		174,524
[illegible]		664,748
EXCESS REVENUE AND SUPPORT OVER EXPENDITURE		79,674
FUND BALANCE JULY 1, 1983		547,872
INCREASE IN LOAN FUND BALANCE (Note 5)		
[illegible]	196,000	
[illegible]	(184,256)	
[illegible]	24,019	
[illegible]		35,763
TOTAL BALANCE JUNE 30, 1984		**$663,309**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

OAKLAND BUSINESS DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 1984

SOURCES OF CASH	
[illegible]	$ 79,674
[illegible]	6,879
[illegible]	86,553
[illegible]	548
[illegible]	2,700
[illegible]	159,000
[illegible]	35,763
[illegible]	284,564
USES OF CASH	
[illegible]	87,300
[illegible]	85,452
[illegible]	651
[illegible]	37,976
[illegible]	1,728
[illegible]	7,604
[illegible]	10,000
[illegible]	938
[illegible]	76
[illegible]	231,725
INCREASE IN CASH	52,839
CASH, BEGINNING OF THE YEAR	21,788
CASH, END OF THE YEAR	$ 74,627

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

OAKLAND BUSINESS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1984

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Oakland Business Development Corporation (OBDC) is a nonprofit corporation organized for the specific purpose of furthering the development of businesses within the seven Community Development Districts in Oakland, California by administering a loan fund provided by the City of Oakland. In addition, OBDC promotes and assists the development of business concerns by offering technical and management assistance through agency referral or in-house assistance.

BASIS OF ACCOUNTING

The books are maintained on the accrual basis of accounting with support being recognized as expenditures are approved by the City of Oakland. Revenue is recognized when it accrues to OBDC. Expenses are recognized in the period in which goods or services are received.

FIXED ASSETS

Fixed assets are recorded at cost and depreciated over estimated useful lives ranging from 3 to 5 years, using the straight line method.

INCOME TAXES

OBDC is organized pursuant to the general nonprofit corporation law of the State of California and is exempt from both federal income tax and state franchise tax; therefore, no provision for income taxes is required. The Corporation is required to submit annual federal and state information returns.

NOTE 2 - INVESTMENTS

Investments are comprised of the following:

Washington Inn Hotel	$ 10,000
Jefferson Street Investment Group	24,000
Oakland City Center Hotel Co.	10,000
Oakland City OB #1	167,000
Total	$211,000

During the year, OBDC invested $10,000 in the Washington Inn Hotel. The investment group, which is a limited partnership, proposes to acquire and manage as an investment property, located at 495 - 10th Street, Oakland, California.

NOTE 3 - RETIREMENT PLAN

OBDC contributes to an employee retirement plan as part of its fringe benefits program. The plan may be terminated at any time and covers all full time employees with a minimum of one year of service. In the first year of eligibility, OBDC will match the employee's contribution up to 5% of gross salary. The second year's percentage increases to 7½% with subsequent years having a 10% matching contribution percentage. The contribution for the year end June 30, 1984 was $11,509.

In addition to the retirement plan, OBDC provides a cash value life insurance policy with coverage equal to twice the amount of the employee's annual salary. OBDC will be the owner and premium payer until the employee has vested interest. The employee becomes owner and fully vested after five years. Total premiums for the year ended June 30, 1984 was $6,307.

NOTE 4 - COMMITMENTS

OBDC leases building space on a month to month basis at a fixed monthly rate of $1,793 for one year.

OBDC is also obligated under a financing lease for its copier September 1984 and its document feeder through April 16, 1985. These obligations reflect the present value of future lease payments discounted at the interest rate implicit in the lease, and a corresponding amount is capitalized as the cost of the asset and depreciated over the assets estimated useful lives of five years on a straight line basis.

NOTE 5 - INCREASE IN LOAN FUND BALANCE

Revenue is not recognized from the loan fund activity. The loan fund is treated as a revolving account with all receipts being sent to the City of Oakland to be disbursed to OBDC after a resolution is passed by the City Council. Loan proceeds, when received, are placed in an escrow fund. When the loan funds are disbursed, they are recorded as notes receivable. Interest income is treated as part of the monies held by the City of Oakland to be disbursed to OBDC when a resolution is passed.

CORPORATE & FOUNDATION CONTRIBUTIONS

CORPORATIONS / FOUNDATIONS

Master Business Machines
Genie's Business Machines
Arthur Anderson Company
Local Initiatives Support Corp.
Fleming Corporation
Harris, Alexander, Burris & Culver
Oakland Assoc. of Insurance Agents, Inc.
Huntington Restaurants
Vive Le Croissant
AT Printing
Pioneer Title Insurance
Computerland of Oakland
Teleport Oil Co., Inc.
Markstein Beverage
Anheuser Busch, Inc.
Dreyers Ice Cream
Oakland Tribune
•DIA Radio Station
Postal Instant Press
Shasta Beverage Co.
Hawaiian Punch
TRW, Inc.
Oakland City Center Development Co.
Adams, Grant, White & Co.
American Savings and Loan Assoc.
The Bechtel Group
The Clorox Company Foundation
Doyle, Williams & Co.
Golden State Business League, Inc.
Home Savings of America
Jones, Hall, Hill & White
•Kaiser Center, Inc.
•Kaiser Foundation Health Plan, Inc.
•KTVU Television
Merrill Lynch Pierce Fenner & Smith, Inc.
C.J. Patterson and Company
Price Waterhouse
Shearson/Lehman American Express
Southland Corporation
Cypress General Partnership
Siu's Products & Distribution, Inc.
Coldwell Banker
The Booker T. Washington Foundation
United Plastics
Northern California Black Chamber of Commerce
Schwartz & Lindheim, Inc.
Barclays Bank
Sven Design
Stuckey & Johnson
Bill Wright Painting & Decorating, Inc.
Adelphi Incorporated
Holden's Liquors
Pacific Trans American Corp.
Safeway Stores, Inc.
Grubb & Ellis Dev. Management
Daybreak International
Beaux Arts Ltd.
Soferval, Inc.
Grand Avenue Van & Storage, Inc.
First Enterprise Bank
FORCE, Ltd.
Fairfax Architex
Pacific Construction Co.
Bank of Canton of California
Gibbs' Bookkeeping & Tax Service
T & J Janitorial Service
Bayside Helicopters, Inc.
Blum, Kay Merkle, Kauffheil & Stoermer
Crocker National Bank
Washington Inn Associates
The Fleeto Company, Inc.
Bank of Oakland
Bank of the Orient
Wells Fargo Bank
Oakland International Trade Center
Amdel Construction
Wareham Properties
•ASS Management Services, Inc.
Paramount Companies
Oakland Police Officers Assoc.
Gospel Bird Fried Chicken
Bank of America Foundation

INDIVIDUAL CONTRIBUTIONS & CREDITS

INDIVIDUALS

Sammie Duke
Ronnie Loff
C. Allan Stark
Eric Stumpfer
R. Craig Smith
Athelda Abbot
Thomas & Mrs. Allen J. Jones
Thomas W. Foague
Sandra Swanson
Elbert Henderson
Leona Thomas
Lynette Jung Lee
Wayne C. Rowland
Joan Rahman
Vickie Johnson
Grace Ayers
Frank Hoag
Murray C. Edgely
Bridges M. Stewart
Robert C. Manuel
Mr. & Mrs. Frank Mangrobang
Mr. & Mrs. Cedric W. Stine
Dr. Thomas H. Arnold, DDS
Warren Wilson, Victorian Legal Center
Reynard Campbell, C.P.A.
Albert N. Thomas
Mr. & Mrs. Bob Bassard
Regina A. Wills
Mr. & Mrs. Ted Connolly
Robert Shaffner

CREDITS

Anderson/Gans/Sherman, Editing
Victor Lloyd, Photos
OEDC Staff, Text and Concept
KYP GRAPHICS, Printing, Typesetting
Graphic Design

Additional copies of this report are available upon request by contacting Joy Whitlow, Oakland Business Development Corporation, 436 - 14th Street, Suite 1205, Oakland, CA 94612, (415) 763-4297.

OBDC STAFF

LILY CHOI
Loan Officer

MICHAEL MCPHERSON
Assistant Director

JOSE TAMAYO
Loan Packager
Financial Services Officer

DEBBIE CRAIG
Secretary

APRYL BELLAND
Assistant Bookkeeper/Word processor

HENRY WILLIAMS
Assistant Vice President, Loans

JOY WHITLOW
Administrative Assistant

Mr. MITCHELL. What I would like to do is to hear from all of the members of the panel first, and then put questions, if that is agreeable with you, Charles.

Mr. HAYES. Fine.

Mr. MITCHELL. So, Ms. Brooks, if you will go right ahead with your testimony.

TESTIMONY OF JEANNE ZARKA BROOKS, DEPUTY DIRECTOR, ECONOMIC DEVELOPMENT, MAYOR'S OFFICE OF HOUSING AND ECONOMIC DEVELOPMENT, SAN FRANCISCO, CA

Ms. BROOKS. Thank you, Mr. Chairman, and members of the committee.

I thank you also for having us come this morning and give testimony on this very important program.

Mr. MITCHELL. Can you hear her clearly in the back?

OK. I think you need to get the mike a little closer to you.

Ms. BROOKS. Is that better?

Mr. WILLIAMS. Yes.

Ms. BROOKS. The importance of the Small Business Administration 502 and 503 programs cannot be understated in San Francisco. Particularly in this city, small businesses are faced with rapidly escalating rents, rents that are increasing by leaps and bounds—100, 200, 300 percent within several months.

The competition for space in San Francisco, for businesses that are in a position to expand, is also extremely critical.

San Francisco, as you know, has a limited geographic area, and the lands that are available for development are few and far between. Those sites that are available for business expansion are receiving increasing pressure from primary office use and the extension of our downtown into the other areas of the city.

And for this reason, small businesses in our city face a particular crunch when it comes to finding space available for expansion. The 502/503 program helps with this by providing a financing mechanism, long-term fixed asset financing which can, in many cases, fill a gap in our local financing market, particularly in times of high interest when lenders may curtail some of their commercial real estate lending activity for small businesses; sometimes the Small Business Administration programs are the only game left in town, if you will.

It is vital for small businesses in our community, we believe, to have an opportunity to own their own facility, and thereby to have some say as to what their future destiny in the city may be, and get a handle, a firm handle, on their operating costs and be able to project those out over a long period of time. That helps small businesses particularly with their future growth plans in an area as dynamic as the bay area and a city as dynamic as San Francisco.

So, the SBA programs provide businesses with an opportunity to own and to also retain much-needed working capital in their hands. Due to the low downpayment minimum requirements that are part of these programs, a business is able to keep more of its working capital needed for expansion in its own pocket, as opposed to having to use it in the form of a downpayment on a commercial property; we think that that is also very critical to them.

As far as the city is concerned, we also have a great interest in these programs, because they provide job opportunities for city residents, and let me explain briefly how that is done.

Any recipient of 502/503 loan assistance that is sponsored through the city's CDC—the San Francisco Industrial Development Fund is the name of our local CDC—must enter into a first-source hiring agreement, which stipulates that with respect to any new jobs that will be created as a result of the expansion of the business, it will give our city's employment and training system, the Private Industry Council, the first crack at referring appropriate people for those jobs.

The types of referrals that they would receive will be people who typically might be underemployed or unemployed; they may have English as a second language, which I am sure you know in San Francisco is very critical. We have a large Asian and Hispanic community; members of the refugee population are beginning to swell in these areas, and so it is very critical that we have job opportunities available to them.

We have found this first-source hiring agreement to be absolutely critical in these programs, and one that is well accepted by the business owner.

He or she has the say as to who they want to hire, or what kind of skills they want that person to have, what pay levels they are going to set, and so forth; but they give the city a first chance at referring appropriate people for those jobs; and it has worked very, very well.

You will hear later from some people who have actually benefited from that program. So that's one of the local things that we do with the 502/503 program that we find is absolutely essential for job employment in the city.

Also, these programs provide assistance to retail businesses in our city that might otherwise have to leave. They might have to find a facility to meet the needs of their expansion, and without appropriate financing, it just may be that they would leave our city and go elsewhere.

These projects also are important to us because they many times have involved the rehabilitation of an underutilized facility in the city, or they might bring new economic vitality to an area of the city that needs that push for small business. In the case of our South of Market Area, which is an area of the city that is now under tremendous pressure back and forth between small industrial-type businesses and the downtown office use coming in, with ownership opportunities being placed in the hands of some key businesses and in key areas, the program firmly affixes the future of small business participation in that area of the city, and they will stay there.

So that is also key to us.

How have we used these programs in San Francisco, particularly for minority-owned businesses? I can tell you that of the 32 projects that we have assisted through our local CDC, 11 were minority-owned firms. This is about 34 percent, which, as you noted earlier, is over 6 times the national average.

San Francisco has a very large minority population, as I stated before; nearly half of our residents are from minority populations

now. Fastest growing among these groups are the Asians; Hispanics are also very strong here and in the State of California, as you might expect, as well as black, and then other groups.

And among those people, there's a large number of small business owners in San Francisco. If San Francisco has one thing that we might pride ourselves on—and I think we have many—but this one might be the fact that it is an entrepreneurial city, by anybody's standards, and there are a lot of small business entrepreneurs in all different types of businesses in our city; and the minority population has a large percentage of business owners in our city.

We also have a small business injection loan program. I think it probably is similar to the one described by Mr. Williams, the Oakland representative. It was originally funded by EDA funds, and now uses Community Development Block Grant funds. The San Francisco CDC is able to inject up to 7.5 percent of the project cost to assist the business owner with his or her downpayment, and perhaps some of the leasehold improvements that might be critical to making a facility suitable for that business.

These funds are lent at below-market rates, fixed rates, and can therefore help with the overall cost of the project for the small business. And this is available to any qualified business owner in the city.

But, in particular, we have subcontracted with neighborhood economic development organizations in the city who actually provide loan packaging and management assistance services to small businesses.

These organizations have, as part of their work program activities, particularly, marketing efforts geared to minority small businesses.

And I think that this might be one of the things that has allowed our program to be very successful in attracting small minority businesses to it.

I might also say in general in the bay area that the level of education and sophistication of small business owners is relatively high, I think, by national standards.

And when we have a Silicon Valley literally at our doorstep, and a lot of the service businesses that are offshoots from that, we find that the level of sophistication and entrepreneurial expertise of business owners and minority business owners is very, very high in this area.

We also have a great deal of participation on behalf of minority chambers of commerce in this area—the Black Chamber of Commerce; the Asian Business League; the Small Business Department of our local chamber of commerce.

There is now a Hispanic Chamber of Commerce rapidly being formed, and they expect that we will be putting on a major economic development conference for small minority businesses, and particularly Hispanic businesses in this city in the month of January or February.

So, you'll find also that these groups have played a very active role in disseminating information about the SBA programs to their membership; and I think that has also had an effect.

I will just make a few remarks here on obstacles to prevent greater minority participation in the programs and illustrate with some figures what we have found to be our experience.

I think that you may find today that the key differences between the 502 and the 503 programs may shed some light into why it is that so many minorities may have participated earlier on in the game with the 502 program, and you'll find that those figures have been slackening off.

The key differences in my mind of the two programs are the size of the projects involved, and the employment requirements for them.

The effects of this might be illustrated by our own figures.

We have done twenty-four 502 projects since the inception of that program. Eight of those—the information that you have in front of you should be corrected to reflect eight rather than seven—were minority-owned businesses.

In other words, one-third.

Eight 503 projects have been done; three of those were minority-owned businesses or 37 percent of the ones that we have closed to date.

The average size of the 502 projects since the inception was $657,000. The average size of the 503 projects was $805,000.

But if I just take the figures from the last 2 years when the 503 program here in San Francisco was in full swing and when we have costs that I think also are more reflective of the costs in the marketplace now, you'll find that the average size of the 502 projects within the past 2 years was $342,000, and the size of the 503 projects was $825,000.

So the size of the project has made a tremendous difference. We are finding that we are doing with the banks those larger projects through the 503 program, and the smaller ones that maybe they are not even interested in doing as a 503 are coming under the 502 program; and that may have something to do with the size of the business that is able to afford that kind of a project and that kind of financing.

Next will be the jobs. I mentioned before, the employment requirements between the two are different; 503 is actually stiffer—you have to have more jobs created per SBA injection dollars than under the 502 program.

The average number of jobs retained under 502 projects for our office was 23 and the number created was 12, or an average job impact of 35 per project.

Under the 503 program, we had 34 jobs retained, and 15 created, or 49 to 50 jobs per project.

In the past 2 years, the statistics become more dramatic again. Only 17.5 jobs were retained and 4 created, under the most recent 502 projects; whereas under the 503 program, 23.5 jobs were retained and almost 13 created.

Again, it has to do with the fact that the 503 program and our local SBA office places very heavy weight on how many new jobs might result in a project.

Now, this is going to have a direct impact into what types of businesses are able to come under this program. Those that employ and are much more labor-intensive obviously have an advantage.

I can't pretend to say that I have done any real statistical analysis into what percentage of minority businesses are in this position. I can just give you my sense from being in the city and working with these businesses over a period of about 7 years.

I think the minority businesses in general—maybe across the country—are in those kinds of industries that typically do not employ as many people as some other types of businesses. They may be more service-oriented, and so forth, and as a result do not have large employee roles.

Now, in San Francisco, this is somewhat different, again, because of the minorities that we have here, and how great a number that is, and the type of industries they go into. Labor-intensive industries are owned by minorities in our city. I'm speaking about garment manufacturing firms, printing firms, firms of this nature that do have a large number of employees.

Many times those employees do not speak English very well, or they have recently come to the shores of this country, and are actually being employed by other members of their same ethnic group; and I think that that may be another reason why we are more successful here in being able to put them under the 503 program than you might find elsewhere.

Finally, I just might mention that the average size of our city loans have had to increase, along with the 503 programs.

Our average loan for 502 programs within the past 2 years has been $17,000; and our average loan for a 503 has been $42,000. This has to do, again, with the size of the project and the wherewithal of the business to come up with that downpayment and the increasing need of the systems of the city to play a part in this role.

Thank you.

Mr. MITCHELL. Thank you very much.

And now we will hear from Mrs. Mary Erbez—am I pronouncing your name correctly?

Mrs. ERBEZ. That's correct.

Mr. MITCHELL. All right. Thank you.

TESTIMONY OF MRS. MARY ERBEZ, ASSISTANT CITY MANAGER AND CITY CLERK, CITY OF PITTSBURG, CA

Mrs. ERBEZ. The city of Pittsburg likewise is pleased to be with you this morning. It's the Pittsburg Economic & Development Corp. that packages SBA loans and not the city itself. However, we are here to testify on behalf of the programs.

I wish to briefly acquaint the committee with our community. It is small, approximately 40,000. It's 30 miles east of Oakland and approximately 60 miles west of Sacramento. We have a multiethnic type community with a population of approximately 62-percent white, 38-percent minority. Our community has been known as one that has pockets of poverty in an industrial city. However, we have changed that image somewhat in the last few years with some innovative programs that we have brought into the community.

The Pittsburg Economic & Development Corp. was initiated during the city of Pittsburg's Model Cities Program. The city council provided the corporation with approximately $3 million in Federal funds over a 3-year period of time. Emphasis was placed on

bringing a variety of businesses into the community, and particularly on establishing minority enterprises within our city.

The city had a critical unemployment problem during that period, one that was over 20 percent, and jobs were—and are—of great concern to the welfare of our community.

The corporation has done an excellent job in Pittsburg bringing businesses into the community. Some of these big businesses would not have been established had they not had SBA funding. This, in turn, has provided revitalization in certain areas and new growth in others. It has provided jobs and it has provided an impetus for a growing business and residential community. A brief summary of some of the corporation's SBA loans, particularly those within our city, follows:

The 502 program, which has been in effect in our community for approximately 10 years, has provided 30 loans for approximately $5.3 million; 22 of those loans were made to businesses within the city of Pittsburg; that provided over 120 jobs; minorities took advantage of 8 of those loans, or 36 percent of all loans made available in the city of Pittsburg.

The 503 program, initiated several years ago, has provided a total of 15 loans through our corporation, with 2 of them having been made within the city limits. This provided 33 new jobs. Many of these jobs are occupied by minorities. Merit Ends is a prime example of the type of employment that SBA has created. Merit Ends will participate in today's program.

Since 1971, the corporation has provided 44 loans under the 7(a) program for a total of approximately $2 million. Of the 44 loans, 35 percent were made to minorities.

The loans were used for such businesses as an electrical contractor, the pallet industry, a dress shop, three Mexican restaurants, appliance stores, trucking firms, music stores, food markets, and so on.

The city of Pittsburg has been involved in over $200 million in home mortgages and industrial development bonds in order to attack our revenue and unemployment problems and provide the city with affordable housing. We have a manpower program that has placed over 1,900 people in unsubsidized jobs. All these programs, linked with the various SBA programs, have enabled us to reduce our unemployment to approximately 9 percent. It is absolutely essential that these types of social action programs continue to function in our community. We have proven results that benefit the entire community.

It is extremely important to again note at this point that some of these businesses would not have come to our community if SBA funds were not available.

Our city, like others throughout the State and country, is competing to attract new people, new businesses, and new industry. Only by having a total package to offer, including our housing, manpower, industrial development, and economic development programs, based on the SBA process, have we been able to attract new residential business and industrial growth.

For us, the SBA alternatives are an important part of the total picture and without their possibilities, we would definitely not compete nearly as well with other cities. We are even now currently

discussing with prospective businesses the possibility of using SBA funds. In some cases, the individuals elect not to use this alternative. However, all potential new businesses and those already here, desiring expansion, are made cognizant of these possibilities and certainly the potential of SBA loans as a part of their total financial planning process.

It is important that this vehicle be available. Our economic development corporation has been an extremely active body, working not only in our city but throughout the State, fostering economic development, providing technical assistance, and financial advice to a variety of cities. This corporation has also been under contract to the State department of commerce as a consultant.

The success of our corporation is strongly rooted in the SBA process and without the utilization of the various programs under the SBA aegis, the corporation would not have been—and would not be now—anywhere nearly as effective in fulfilling its mission.

Again, it is important to repeat that, in our opinion, the value of the SBA programs are not only in their individual prowess, but also very much in the supplementary and supportive linkage they provide to other social action and economic development programs.

It is obviously our strong belief that to weaken or eliminate these programs would be extremely detrimental, not only to the small business community and prospective entrepreneurs, but also to communities such as ours which must use every tool available to ensure the growth of our local economies and the mitigation of social blights of unemployment and poverty.

Your committee, Mr. Chairman, is bent on a specific mission—that is, to determine the viability of the SBA process, and beyond that, the participation level of minorities.

We share the concern of the committee in its quest for minority participation to the fullest extent possible, as this we view as simply an extension of our affirmative action policy. As with our affirmative action policy, we feel much has been done to aid minority entrance into the mainstream, but also there is much to be done to foster a greater and more successful role in the SBA process by the minority businesses.

First of all, we would suggest a much more aggressive information program on the part of the SBA Administration as well as local agencies and development corporations. An outreach program is essential at all levels and the outreach must be on the basis that is realistic in terms of contacting those potential participants.

This means that prospecting for SBA candidates through banking sources or chambers of commerce, et cetera, may not be productive in creating greater awareness of SBA possibilities for minorities. Greater efforts must be made through the various ethnic media, minority-owned businesses, churches, and ethnic social memberships to be sure that the word is spread widely and effectively.

Part of this outreach thrust must include the presentation of the wide variety of economic programs available under the SBA umbrella.

There are many more individual programs available than are generally associated with the broad program. There are a wide va-

riety of needs, so these must be addressed and all possibilities explored.

We believe that the program should be kept as flexible as possible and as simple as possible. Obviously, when attempting to draft rules and regulations to function nationwide, there is a natural tendency to try to foresee every potential criticism and breakdown, resulting in administrative regulations which strangle rather than assist. Process becomes an all important matter rather than the ultimate goal of the program. It is probably a truism that regardless of the rules developed in any program, someone will find a way to circumvent them, and some criticism will be heard when this occurs. We think it is more important that the ultimate goals be served and the broadest participation be allowed than to focus on total prevention attempts.

We also believe there must be a stronger emphasis on technical assistance. Financial, accounting, marketing, and employee policies are vital to the success of any organization, and it is in these areas that new enterprises fail. If minority businesses are to be initiated successfully, there must be more emphasis on this kind of assistance. This help is, of course, important for any organization. However, given the lack of experience in economic ventures for a variety of reasons, it is doubly important to new minority ventures.

Finally, there must be a development of financial packages that will be attractive to the banks and financial institutions. Too often the financial sector is not interested in making loans unless they are of a specific size. In our State and specifically in our area, some banks are not interested in loans under $500,000. In California, most banks are branches of tremendously large banking operations and policies are set on a corporate basis, not in the local community. There are, of course, exceptions to this.

There are also many potential new businesses and existing businesses wishing to expand which do not require large sums of money. Many of these need funds under $100,000 ranging anywhere from $25,000 to $50,000 to $75,000. This is especially true in the service business, clothing establishments, printing, et cetera. The SBA should focus on ways to make these loans more palatable for the lending institutions. This may well require write-down of interest rates by the SBA and special terms for smaller ventures where even the basic venture capital is extremely limited.

Mr. Chairman, we thank you for the opportunity to appear before you. We especially appreciate this since, in most cases, cities of our size generally are not asked to appear, and we give way to our larger brethren.

We hope that whatever is presented here by our corporation will be of assistance to you. They are the ones who have packaged the programs and have the experience and hopefully they will have enough information for you today to help you in your goal.

Mr. MITCHELL. Thank you very much for your testimony. Thanks to all three of you.

I have some questions, and I am certain some others have questions.

First, to Ms. Brooks.

In your testimony, you spoke to a very healthy development, I think, and that was the first source hiring, from the city.

When did that program get started?

Ms. BROOKS. I believe we started that almost simultaneously with the very first SBA 502 loan that was ever done in San Francisco, probably 1980, or something like that—no, before that. It came simultaneously with the program.

Mr. MITCHELL. With the 502?

Ms. BROOKS. Yes.

Mr. MITCHELL. OK. Do you have any idea as to how many people have been employed using this technique?

Ms. BROOKS. The 502/503 loans have had an impact on almost 1,200 jobs retained and created. Of those I would estimate that about half were newly created. So, probably 600–700 jobs, something like that.

Mr. MITCHELL. And they would be the first preference jobs for city residents?

Ms. BROOKS. Right.

And that's just under the 502/503 program.

Mr. MITCHELL. Right.

Ms. BROOKS. We keep this first source hiring agreement in place for all financial systems, whether it be UDAG, industrial development bonds, or other types of loans.

Mr. MITCHELL. All right. The second question that I have is directed to all of the members of the panel.

SBA's general counsel has interpreted provisions of the infamous Gramm-Latta Reconciliation Act of 1981 in such a way as to prevent a small business from borrowing from the bank under the agency's regular 7(a) loan program and from a 502 or 503 company if the two loans together would exceed $500,000.

I think that is a bad interpretation, but that is the interpretation they are making.

Now, since 503 loan proceeds cannot be used for working capital, whatever loan you would make would have to be reduced by the amount of any 7(a) working capital loan if their total would otherwise exceed $500,000.

The bottom line is, has the $500,000 limitation affected your borrowers?

Ms. BROOKS. I would say yes, especially with the cost that we have here. The programs are intended for fixed asset financing. It is very difficult to find an available piece of real estate, and to put the improvements in it, which you are going to need to do in a city like ours, and not brush up against that $500,000 limit.

The average size deal, as I mentioned earlier, on a 503 is $800,000.

Mr. MITCHELL. Yes.

Ms. BROOKS. And that's the average size---

Mr. MITCHELL. Right.

Ms. BROOKS [continuing]. But we are seeing projects of $1.2 million, $1.3 million now more and more, because of the size of the facility that they need.

Mr. MITCHELL. Mr. Williams?

Mr. WILLIAMS. I would concur with those comments. In our city, we have a battery of programs and don't specifically rely on the SBA as the only program that can assist the businesses; so we have several revolving loan funds in a setup using community develop-

ment block grant funds. We have a section 108 revolving loan fund which we can also utilize that is a HUD program, and several others.

We participate in a State loan guarantee program, which is administered by our agency that is located here in the city of Oakland.

So, I agree, it does inhibit, but when we go out to market SBA, we don't just market SBA, we market an entire battery, and if one program doesn't fit, we try another.

Just as a comment, we too have a first source hiring program. It's a broad-based program that is voluntary, and is being pushed by the chamber of commerce, and we too have been utilizing a local employment program, local employment goals, and other employment programs that are set up; and our agencies or businesses that are recipients of any of the funding that we provide do participate in these.

But, in general, yes, that $500,000——

Mr. MITCHELL. Limitation does——

Mr. WILLIAMS [continuing]. And especially in California, costs are just high out here; and if you go into some of your Southeastern States, or Southern States, and maybe the costs are lower, the $500,000 restriction is not so prohibitive, but you have to pay more in California.

Mr. MITCHELL. I know.

[Laughter.]

Mr. MITCHELL. Ms. Erbez, I assume you would agree with their position?

Ms. ERBEZ. Yes; I would.

Mr. MITCHELL. OK.

My colleague doesn't know this yet, but I think we are going to try to amend the law a little bit when we get into the 99th Congress.

What about the $500,000 remaining in place in 503 and allowing an additional $250,000 or $300,000 under the 7(a) program? Would that help you any?

Ms. BROOKS. Certainly.

Mr. WILLIAMS. Yes.

Mr. MITCHELL. Is the $250,000 or $300,000 too niggardly?

Mr. WILLIAMS. How high can you go?

[Laughter.]

Mr. MITCHELL. The answer depends upon the political winds that flow through the Congress. That's how high you can go.

I think we do need to work on this amendment. To be quite honest with you, I think we are going to face a very austerity minded Congress; and I doubt if we will be able to exceed maybe $250,000 or $300,000, but we'll discuss it.

Mr. WILLIAMS. That would be helpful.

Mr. MITCHELL. That would help out some?

Ms. BROOKS. I think that would, sir.

Mr. MITCHELL. OK.

Congressman Hayes?

Mr. HAYES. Just a comment. I am very sorry we failed in our efforts the first of November, to return to the State of California its former first son.

It is going to be difficult to effectuate the change that our chairman has suggested. I was just wondering about statistics that would indicate the ratio of unemployment, particularly in the minority community here in this area of California.

And the second part of that question is: Have you experienced any upsurge in your small businesses failures, particularly minority businesses filing chapter 11 because of the unemployment situation?

Mr. WILLIAMS. If you look at Oakland, normally the minority unemployment rate is at a minimum double that of the majority.

Mr. MITCHELL. Under the national average?

Mr. WILLIAMS. Under the national average, and at a minimum. And it is consistent and continuous.

We have not pinpointed the reason for it, but we have seen quite a few businesses go into chapter 11, minority businesses in the Oakland community. And they have been some of the businesses that we have been working with, maybe not through the SBA programs, but through some of the other programs we have.

Again, I cannot pinpoint the reasoning for it, but I think nationally there has been a problem with that whole chapter 11 scenario the last few years, a major, major problem.

Ms. BROOKS. I might make a comment on that. We found, too, that there was a larger number of businesses that filed chapter 11, but the reasons for it were varied. And one of the reasons that should not be overlooked was the—well, if I could put it this way—the weakening of the chapter 11 laws, meaning it was easier for you to declare bankruptcy under the law; and it was after that happened that the number also went up significantly.

Now, that is not to say it is the only reason. The other reasons compounding it, I think, are fairly evident, especially when we had very high double-digit interest rates, and businesses really were strapped and had to cut back, and so forth. We also saw that happen.

Unemployment generally in San Francisco is about 7 percent. I don't have the figure for the minority that's accurate and up to date. Sorry.

Mrs. ERBEZ. We likewise have the problem of unemployment, and it is very often double what it is in our surrounding communities. We have been fortunate in the last few years. We have brought it from 20 to 17 down to 9 percent, which is about the best we have had for a very long time, but we have done a lot of industrial development bonds and housing bonds, and that's created a lot of construction in the community, so we've been fairly well off the last couple of years; but our unemployment rate is normally somewhat higher than other places.

Mr. HAYES. I don't have any further questions. The prepared testimony, Mr. Chairman, seems to be very full.

Mr. MITCHELL. It was good, excellent testimony.

I do have some questions, but in the interest of time, I'm going to write them. I have about four other questions. I'll send them to you, and I would appreciate a reply.

Thank you very much for being here. I appreciate it. Good testimony.

And please be around to support us if we go for that increase in 7(a).

Ms. BROOKS. Yes, sir.

Mr. WILLIAMS. Sure, we certainly will.

Mr. HAYES. The favorite son notwithstanding.

Mr. MITCHELL. Our next witnesses are separate witnesses, not part of a panel.

Ms. Grace Ayers is the assistant vice president and manager for Government Guaranteed Loan Administration at the Wells Fargo Bank.

Is Ms. Ayers here?

Yes, if you will come up, please.

And she will be followed by Mr. Coffey, the president of the National Association of Black and Minority Chambers.

Thank you very much for being here, Ms. Ayers. Please, go right ahead.

TESTIMONY OF GRACE AYERS, ASSISTANT VICE PRESIDENT AND MANAGER, GOVERNMENT GUARANTEED LOAN ADMINISTRATION, WELLS FARGO BANK, SAN FRANCISCO, CA

Ms. AYERS. I do thank you, Mr. Chairman, for the opportunity to appear before you.

As you know, Wells Fargo has a social and corporate responsibility within the communities that it serves, and that is to identify and meet the credit needs of those communities.

We feel that there is no better way for us to meet those social responsibilities than by participating in the various Government-guaranteed loans, specifically SBA.

I think you will see that probably the 503 program in specific is a prime example of a program that has afforded the lenders the opportunity to administer that portfolio within the conforms and constraints of its own dictates. I think the freedom that the program affords the lender, the compatibility with the other services and products that it affords a community, has certainly made it an area of interest for us.

Any time that a lender has the opportunity to respond to the community, and still respond to its own dictates and policies, you are going to see that the response and the commitment is going to be there. At least, within Wells Fargo Bank when we first endeavored onto the program, it was at a time when we were not looking to pursue extended relationships that prevailed in the real estate area.

As you know, the program came about during the time that accelerated interest rates made it prohibitive for us to continue in that pursuit. The market dictates a change, and most of us were in a liquidating mode.

However, given the opportunity to respond to the small business community, it was our feeling that the small business concern should have the opportunity to own their own business. It makes sense.

In today's environment, as creative as we have become under lease conditions, and the various indexes that are attached to the conditions in terms of these leases, we feel that the small business

concern is jeopardized unless we afford them the opportunity to own their own business.

As part of that response internally, given that we all have our own structures, it was a commitment that we would look to see how we could better provide a service for these small business concerns. Given that most of our structures did not provide for long-term financing, we were able to pursue and obtain consideration for participating in a 503 program.

One of the key elements of our success in the program has been our willingness to go forward and fix the interest rate on this program.

I think it is a critical issue. We have not been in a position to fix the interest rates for the full 15-year term, which we provide. Nor really will we provide a 15-year term with a 25-year amortization.

However, the key has been that we are able to go forward and fix the interest rate for periods of up to 5 years. A fixed payment structure to a small business concern, I think, is a key element so that they can better manage their success, their commitments, and have a point of stability.

We are flexible. We occasionally may go into a variable rate, but we feel for continuity, for success, and for structure, the identity of fixed payment structures is very important for a small business concern.

The other aspect of it is that we feel that the enhancement of having SBA participate is certainly an encouragement to us for wanting to go out there on an extended term.

Given the opportunity of, I venture to say, a more favorable collateral position, I think that the lenders have responded from that respect.

One of my concerns is that perhaps greater flexibility or more consideration could be given to job retention.

In that manner, I have often found that I have not been able to respond to a small business concern; and when we look at job retention, perhaps we may want to look at that a little bit extended beyond the minority attitude, the minority community—and I certainly am empathetic to that community, because I am part of the minority community; and so, I am always seeking these entities to work with.

I think one key issue is that we should look at the principles of the corporation. Oftentimes, we have not been able to meet these job criteria under the $15,000 per job requirements, but we have impacted on the minority community otherwise. Oftentimes, the owners of these small businesses employ minorities and the minorities impact them. We could give consideration perhaps to that aspect as well, when we are looking for minority consideration and participation. We could look one step beyond and to the principles of the company—who do they employ? Who will benefit from us going forward in that structure?

The other consideration that I would like to have expanded is perhaps, when we are dealing with a minority business, not only to give more consideration to job retention and impact, but that perhaps a different level or tier of the required dollars per job criteria would be considered; $15,000 per job, I feel, is very limiting to a

small business. It is limiting, I would say, to most businesses, especially a minority business concern.

A $15,000 structure participation and then a 2-year compliance requirement certainly is not going to provide that small business concern an opportunity to comply, to go forward, and to grow.

And that has been the key, at least for the corporations, and the companies that I have served in, or had occasion, rather, to service. We are looking at, in today's market, a middle market clientele; because of the job impact criteria and attention, we allow the market, I feel, to dictate the presence of the small business concern, and we are looking at a concern that is nonminority, one that is in a growth mode, an accelerating mode. And so, therefore, I think in our quest to be responsive to economic development, to pursue that aspect of it, and to work with the minority business community in general, we have not gone forward and really identified the structure of our particular portfolios.

I know that many of our participants are minorities. We have, as of June 1984, issued 57 commitments under the 503 program for approximately $42 million, so it has been a very successful program, the key being the flexibility of the program; it's compatible with the types and services and orientation of our organization. It has provided us with the opportunity to go in there and service the small business community; and I share your concern that perhaps we have not done sufficient homework in going out there and identifying those people for whom the program was designed, and that's our small minority community.

Mr. MITCHELL. Thank you. Fifteen thousand dollars is too low. What figure would you recommend?

Ms. AYERS. I would say perhaps as high as $25,000.

Mr. MITCHELL. $25,000.

Ms. AYERS. Yes.

The other aspect that I have experienced is that I really feel that we need to go back to the companion 7(a) loan.

We used it very successfully; we are relationship oriented, and when we deal with a small business concern, we would like to be able to address its total financing needs and oftentimes that cannot be done.

I think it is key that when we enter into a long-term relationship, such as fixed asset financing, that we can also address ourselves to its short-term financing needs, such as working capital and an inventory accounts receivable financing.

And I think that's a relationship and a compatibility that we should embrace at the time that we are establishing that new relationship.

Mr. MITCHELL. OK. You are the second or third person who has stressed the need for greater flexibility or greater consideration in terms of job retention. What would you recommend?

You are saying that too much emphasis is placed upon the new jobs, not enough on jobs that are retained?

Ms. AYERS. Yes.

Mr. MITCHELL. What would you recommend? What approach would you use?

Ms. AYERS. I think we should look at the entity itself, the people that it employs, especially if the entity is employing predominantly

minority individuals; and that if they are not able to comply with job creation standards in the 2-year timeframe, then perhaps we extend that to a greater period.

Mr. MITCHELL. That's on job creation?

Ms. AYERS. Well, job creation and retention, but given the two, I feel that it is important that both aspects be met. I am not recommending that we go in solely on the job retention mode. I think job creation is equally as important, but if we are looking at a company that is minority-owned, and employs minority, if initially it cannot meet the criteria for future job creation, still equal consideration be given to them for participation in the program, which oftentimes we have not been able to do because they are not in a position to go forward and make the next commitment, which would be job creation.

Mr. MITCHELL. Equal consideration, then?

Ms. AYERS. Yes.

Mr. MITCHELL. OK.

Now, the last question from me. Some of the other witnesses this morning indicated that it appears that some of the banks are reluctant to make loans below $500,000 in California.

You are assisting with loans below that; right?

Ms. AYERS. Yes, we have.

Mr. MITCHELL. What's Wells Fargo doing to convert the unconverted?

You know, we can sit here and praise you for doing that, but are you working with the other banks in an effort to get them, either, first, to participate in the 503 program, or, second, to show a little more social conscience by making a $75,000 loan if it is needed.

Is the bank engaged in any kind of activity like that?

Ms. AYERS. The Wells Fargo Bank——

Mr. MITCHELL. Let me put it another way. I probably have more influence with the Members of Congress than I do with the banks, because they are my colleagues. Wells Fargo can't have a peer, but perhaps a relationship with the other banks.

It seems to me you ought to be selling what you are doing. Is that being done?

Ms. AYERS. It's a concern in the banking industry; but it is becoming exceedingly difficult to service the small loan request. I think you generally find that a loan request under $100,000 is very difficult to place—first, economically, it's not feasible for us; and second, the risk factor, which in loans as they decline in amount becomes greater. And so, yes, there is a concern, and that is one of the concerns that we are looking at—how can we better meet the needs of that community?

Within Wells Fargo, at least, we have our own Direct Minority Loan Program. That program is used to subsidize the Government guaranteed programs under which perhaps we find that we cannot go forward and utilize those.

How do we address ourselves to the small business loan that does not meet the criteria that the lenders are looking at?

It's a difficult position. The scale of economy has pretty much dictated that to us. We are working in unison with the other banks. I have been in contact with Bank of America and with Crocker. Oftentimes, we meet informally, because we are concerned

that we cannot necessarily address all of the needs of that small business community, and the key being that the small business loan is the one from which we find ourselves regressing rather than pursuing.

Mr. MITCHELL. Well, you answered me, but you——

Ms. AYERS. I do not have a very precise——

Mr. MITCHELL [continuing]. But you really didn't answer me.

[Laughter.]

Mr. MITCHELL. Yes, I just want somebody at Wells Fargo to walk over to Crocker and say, "Look, Buddy, we are in this same business together. Here's the problem; here are some of the ways that we are approaching it. Go thou and do likewise."

Have——

Ms. AYERS. We certainly share a dialog——

Mr. MITCHELL [continuing]. A croissant and hot tea with Bank of America, and say, "Look, guys, you aren't making these small loans. Here's a way that we are approaching it; why can't you do it? Go, thou and do likewise."

I'm not talking about any formal relationship——

Ms. AYERS. I see what you're saying.

Mr. MITCHELL. But I'm talking about the selling of the idea that we've got a problem in terms of banks not making small loans, what those banks can do in following your example in attempting to meet that need. That's all.

You don't have to comment.

Questions?

Mr. HAYES. Just a couple.

Do you have any backlog of applicants of loans? If so, what? And what is your ratio of defaults on loans?

Ms. AYERS. On our SBA portfolio in its entirety, it is a very nominal amount. As a matter of fact, that portfolio has been a very strong performer for us, and the default factor is not an issue or a concern within our organization.

We are happy to say that that portfolio has performed exceedingly strong.

Mr. HAYES. One of the criticisms we often encounter—not in this area, in particular, but from small businesses in general—is the time consumed in trying to get approval on SBA loans.

You don't have that problem either?

Ms. AYERS. I wish we could say we didn't, but unfortunately that's true. Small business applications are time-consuming. Oftentimes, we are dealing with two factors. We have an uninformed applicant, and we have an uninformed officer; and, as you know, anytime that we become involved with the auspices of Government, the wheels of mentality cease to function.

So, therefore, oftentimes, your lending officer loses all practical sense of efficiency, reasonableness, and does not treat this as a like product. And so, they are not dealing with rhetoric. They don't have the comfort levels that they are drawing on resources that are already established because the word "Government" does assume that it's different; and, so, therefore, unfortunately I think you do find that there are delays any time that a Government program is involved.

Mr. HAYES. No further questions.

Mr. MITCHELL. Thanks. Thank you very much.

It is with a great deal of pleasure that I call up Mr. Coffey, the president of the National Association of Black and Minority Chambers of Commerce.

Thank you very much for taking your time to be with us this morning.

It's good to see you again.

TESTIMONY OF OSCAR J. COFFEY, JR., PRESIDENT, NATIONAL ASSOCIATION OF BLACK AND MINORITY CHAMBERS OF COMMERCE

Mr. COFFEY. Thank you, Mr. Chairman, and members of the committee.

As I reviewed some of the comments that had been made earlier, I had many thought processes. One of the problems that I envision and have experienced to some degree—and I might add, first and foremost, that I am all for the program and support it very strongly—but yesterday I did an across-the-country telephone survey from some of our affiliates. The thing that kept coming back strongly was that the program is fine. However, there are not too many minorities participating.

And, then, to break it down further, and having a recent experience chairing an extended review committee for a public agency in this area not too long ago, we found ourselves getting involved in the minority terminology and in some back-door infighting; and out of that we discovered that when we broke that minority participation down in terms of race, we found that there was less than 1 percent black participation.

That disturbs me, and it disturbs me because we play games sometimes with this term minority.

I think that private, nonprofit agencies such as the Black Chamber of Commerce, and other groups might find it necessary to further define that participation.

On most applications that are required by the Federal Government, they say race is an option and you list it.

Well, that's fine, but I think, in some form, we should develop data through which we can get a clearcut picture of who these minorities are and what percentages are participating because if we continue to go the way we are going now, we will find that this term minority will create a warfare that is not needed in this country among minorities.

The problem that I have observed with SBA and this program—again, I think it is fine—and its relationship with the banks can be illustrated by a recent experience with several banks, a personal experience with banking people I knew quite well, I thought, until we began to negotiate for a substantial loan, and they replied:

> Oscar, you are a very, very ethical, respected individual; however, you don't have any development experience. But if you would bring Joe Doe in, that we have developed a business relationship with, then we will consider that favorably.

You find the unfortunate thing is that when most minorities, and specifically blacks, go into a bank, that is the first mistake.

Mr. MITCHELL. Just to go in?

Mr. COFFEY. Because you go in with a negative attitude because of your experiences all along the way. Even the bank where they have your money. They have always told me to do business with the bank where you deposit your resources; and that's where I started and where many of my members started.

I think what has to be done, or considered between the banks and the 503 companies, is that they should understand that most of these Federal programs, for the most part, are risky and provide for that risk. You cannot deal with an individual in the same scenario that you deal with in going in for a private loan in all cases.

Let me hasten to say that I would not suggest that a bank or 503 program grant a loan simply because an individual is who they happen to be.

But when you look at the block grant programs, some of the housing programs, and some of the other Federal programs, you ask yourself why should they have the Federal program in the first place if they are as stringent as the private sector?

As I understand the program—and I am trying to deal with some of the problems that I gathered from this survey that I made on our membership—an individual walks into the bank for x number of dollars, and it is my understanding that the bank will loan up to 50 percent of the project cost and want all of your security, all of your assets, tied up in that 50 percent of the full loan amount.

And then the 503 program comes along—they are going to loan 40 percent; and if that individual entrepreneur, 2 or 3 years down the road, suffers a cashflow problem, his equity is all tied up in the first. And you have to ask yourself the question: Will the lender of the third be merciful; or will the holder of the second subordinate to allow you to get some additional cashflow to function?

So, the problem is: The program is good, but I don't see any appreciable increase in the percentages of loans going, one, to minorities; and, second, and more specifically, to black entrepreneurs.

You probably will ask me what is my recommendation? I will try to answer that while I'm raising it.

If the banks are going to loan 50 percent of the money, and the SBA is guaranteeing that amount, what can SBA or the Federal Government do to say to the private lender:

> You are not entitled to 100 percent of the person's equity in collateral, rather, of his holdings, or her holdings, because it is strangling the person's ability to borrow at some future date, when there is a downturn in that particular business.

I would like to continue this in a complete written statement to you, because of the information that we have still coming in as early as this morning. That's why I stepped out to use the phone, because I really want to get a sense for this.

But I see finally, in conclusion, this program, to some degree, is like the block grant programs. Cities such as Oakland must aggressively recognize that there is a risk factor, and that we cannot be as stringent in all cases as the private lender because then there is no need for the program.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you, and I heartily concur with you. That's the fight that I have in Washington all the time. They say, "Well, there are some loans that have gone bad."

I say, "That's the purpose of the program, to offer a risk program. If it's a risk program, you don't expect everyone to succeed. If everyone could succeed, then you wouldn't need the program."

So, I think we do have to educate people in terms of risk. Some 40,000 small businesses filed for bankruptcy last year. Not all of them were minority businesses. Some of them had bank loans; but there was a risk involved.

Also, I am concerned about your data on black participation. What I have done on other programs, including the Surface Transportation Act on which I've been conducting oversight hearings, is to tell the States which administer the 10-percent set-aside program to break down the minority participation data for me when they come in.

You know, it is one thing to say 37 percent minority, and another not to know what the minority is. I guess it was my grandmother who was American Indian. I want to see the American Indians participate, but I would not want to see a program where it was 37 percent minority and American Indians made up that total 37 percent. That's not beneficial.

So, I am going to recommend that under the Surface Transportation Act reporting be broken down: Black, Hispanic, Asian, and so forth, so that we will know whether contracts are being fairly evenly distributed.

I don't—where's my friend from Wells Fargo?

I don't know whether—rest yourself—I don't know what we can do about these banks demanding 100 percent. I'm on the Banking Committee, and I wish I could do something about that. It is unfair, and I made a note on that to see whether through the members of the Banking Committee we can come up with some method of at least addressing the banks on this issue.

If they get 100 percent, that's your house, and everything else. Then, by the time you get to your second loan, I guess they want to draw and quarter you and serve you for stew meat or something. I can't—we can't make the banks take less. Up to this point, we have not been able to set the demands, or limit the demands that the banks make; but it is a very precarious position and one that really deters people from going into business.

Congressman Hayes?

Mr. HAYES. His message came through very clear.

Mr. MITCHELL. Yes.

Mr. HAYES. Mr. Chairman, I don't think I have any questions that I would need to ask.

I would appreciate a copy of the prepared testimony to be presented subsequently.

Mr. MITCHELL. Yes, we both would.

And if you would get that to us as quickly as possible.

Mr. COFFEY. Thank you.

Mr. MITCHELL. Thank you. Our next group is a panel consisting of Mr. James Baird, executive director of the Bay Area Development Co.; Mr. Edgar Deas, E&M Electric & Machinery Co.; Mr. Jose Molina, American Duhl Corp.; and Dr. Shoshei Serata, Serata Geomechanics.

The format that we will follow—please come right up—the format that we will follow is to have the financing entity plus some of the people who have benefited from that financing entity.

TESTIMONY OF JAMES R. BAIRD, EXECUTIVE DIRECTOR, BAY AREA EMPLOYMENT DEVELOPMENT CO.

Mr. BAIRD. I am James Baird, the executive director of the Bay Area Employment Development Co.

First, I would like to thank you very much for this opportunity to testify before your committee. A little bit of background, if I might, on our certified development company.

Bay Area Employment Development Co. is a nonprofit CDC. We were certified in May 1981, which makes us one of the first certified development companies in the country.

We are a regional company in that we operate within the nine bay area counties, which is the Greater San Francisco Bay Area SMSA.

We are also nonaffiliated in that we are wholly self-supporting and have never received subsidies or contracts from Federal funds from HUD or other sources. The only Government funds that we deal with would be the proceeds of SBA 502 and 503 financings.

As far as our activity in the last 3 years, we have accomplished approximately 70 financings through both the 502 and 503 programs. That breaks down into about sixty 503 projects and about ten 502 projects.

This represents financing of approximately $45 million to companies within this region. The Small Business Administration's share of these loans was approximately $18.5 million, and this represented the creation or retention of approximately 2,250 jobs.

Mr. HAYES. I didn't get that figure. Two——

Mr. BAIRD. 2,250. Out of our loan portfolio of 502 and 503 loans, which should be approximately 70 loans, we have a total of 10 loans which are for companies that are owned by minority individuals.

In addition to that, one of the things that hasn't been touched upon here, but at least is a factor in our portfolio, is that we have three loans which were for businesses which are owned by women.

As far as the minority portfolio, then, that represents 14.3 percent of our portfolio. Our average project size is running a little bit over $600,000, and it is very similar for minority financings as well as just our average portfolio in total.

So, the project size in our portfolio tends to be the same. One other factor that we have noticed is that the minority projects that we have financed statistically on the average are less labor intensive.

In terms of looking at the numbers that have been talked about today relating to SBA's $15,000 per job criteria, for our overall portfolio we have created or retained one job per $8,300 of SBA 502 or 503 financing. The respective number for just the minority portion of our portfolio is $12,000 of SBA moneys per job retained or created, so that the projects, at least in our portfolio, tend to be less labor intensive in the area of minority-owned businesses.

What I would like to do if I might, is just mention several factors that I've noticed in doing business with the certified development company for the last 3 years that I believe might have some effect on the participation of minority entrepreneurs.

The first thing I would like to mention is that the San Francisco District Office of SBA has a situation that I don't believe is duplicated all across the country, and one of the things they have out here is a number of certified development companies, both local and regional; many have overlapping territories and are quite active.

In the nine-county San Francisco Bay Area, I know of four or five certified development companies that have overlapping territories and effectively compete for business.

Now, some of these certified development companies may be profit or nonprofit. Some of them might be affiliated with local or State or Federal Government; and some of them might be independent. But, nonetheless, all of them want to do as good as they can in financing projects and satisfying their goals; and this overlapping of certified development companies leads to intensive competition for eligible, approvable projects.

This competition causes the certified development companies—in terms of the general, competitive model—to do what they do very well, in order to find the financings for themselves.

It also causes them to aggressively market their financing programs.

Mr. MITCHELL. May I interrupt you for a moment?

Mr. BAIRD. Yes, please.

Mr. MITCHELL. Maybe you are going to address this, but what about the other side of the coin? Duplication and that kind of thing? Because of the overlap?

Mr. BAIRD. I would say, in terms of duplication, there is some duplication that takes place in the area of marketing. I know that many of the entities that I am marketing too were also being marketed by other development companies.

In the San Francisco District, the two major certified development companies are nonsubsidized, so at least, to that extent, the duplication of services that is taking place—the cost of that duplication would be then borne by the private sector rather than the public sector.

Also, I would say as duplication is one side of the issue, the other side is the competition and the choice that the business people would have in terms of dealing with one certified development company rather than another.

Mr. MITCHELL. You emphasize that it is good for competition——

Mr. BAIRD. Yes.

Mr. MITCHELL [continuing]. To have this overlapping of jurisdictions——

Mr. BAIRD. Yes.

Mr. MITCHELL [continuing]. And, in part, I agree with you. I just had some question about whether if you have overlapping jurisdictions, you don't necessarily get into duplicative efforts?

Mr. BAIRD. Right. Right.

Mr. MITCHELL. I'm sorry.

Mr. BAIRD. Oh, that's all right.

Mr. MITCHELL. I won't interrupt you again.

Mr. BAIRD. That's all right.

Just a word about our own marketing program—what we do is to do many presentations and we also do a quarterly newsletter to all of the people whom we can basically find that we feel would be interested in this financing.

Our newsletter goes out to owners of small businesses, real estate brokers, cities, and chambers of commerce; and we send out approximately 800 quarterly newsletters giving updates on what is happening with the 503 program, and looking for good financings.

As far as our own marketing program, which would be more targeted toward minority business development, we have worked with a number of OMBE-funded organizations and HUD community development block grant funded city development organizations to act as referral sources and financing sources for those.

We have also worked as a safety net, if you will, with areas that don't have certified development companies operating in them, and there are a large number of such counties in California that currently do not have that. We have acted as certified development companies for those counties and cities to provide financing where it otherwise doesn't exist.

Last, we speak a lot at SBA and HUD and OMBE conferences which tend to focus on minority and small business development.

Just a couple of other factors that I might mention, if I may, quickly.

In the 503 program, at least what we see here at the district and at the implementation level, the Small Business Administration has focused on jobs—jobs, jobs, jobs—throughout the history of the 503 program; and really up until the last 6 months or so we have not seen a push to finance more minority businesses, so that that message really has not, in my opinion, been coming from SBA.

The message that we have from SBA is, "Find projects where you can effectively retain or create one job per $15,000 of SBA share," and that's really as far as it goes.

One bit of information that I would offer on that is that the SBA application forms historically have not even included a place to identify, No. 1, whether or not a client is a minority or not; and No. 2, what type of minority that client would be.

Now, the 7(a) form, which is the general business lending program form, has that; but the 502 and 503 forms have not historically had that on there.

The other thing that I would like to provide is a bit of information on our view of this. When the 503 program first started, the $15,000-per-job rule did not exist during the first several months of the program's existence.

When the rule first came into force, it was at a period of time when the prime rate was in the neighborhood of 20 percent; the 503 program was new, and nobody—bankers, businesses, development people, et cetera—really knew what kind of a program it was and how to deal with it.

As a result, it was very, very difficult to obtain any type of financings. One of the things the Small Business Administration did to try to enable the certified development companies to locate fi-

nancings, I believe, was to be reasonably flexible, if you will, on enforcing the $15,000-per-job requirement.

In the first parts of the program, actual retention was not really demonstrated. It was just how many jobs the company had versus whether or not the jobs were really being retained.

Also, projections of job creation were made in a very optimistic basis early on, so that some type of projects could be found to utilize the program.

As the program has been spread nationwide, in a very successful manner, in terms of numbers of financing, the Small Business Administration has tightened up more and more on the job requirements so that $15,000 per job, at least in my experience in California, is being very rigorously enforced at this point.

Now, my view and my recommendation on a $15,000-per-job criteria would be that it should be able to be relaxed for projects that obviously and in a demonstrable way meet national objectives, but not for other types of financings.

I would like to see that in the area of minority business development, in the area of technological innovation, and in several other areas that are obviously national objectives—I would like to see that $15,000 job rule to be able to be relaxed.

In terms of just the normal business financings that don't meet the national objectives, I think there is every reason for continuing a rigorous enforcement of the $15,000 per job criteria.

Mr. MITCHELL. Good.

Mr. BAIRD. The last point that I would like to make before I introduce the other people here would be that I'm sure that you are all aware to some extent of the proposed regulations that the Small Business Administration has been drafting. They are not proposed formally, and they have not been published in the Federal Register, but SBA has been discussing some proposals with a number of interested parties. And I would just like to make some quick comments, if I could, on my view of how these proposed rules might affect minority participation in this program.

Essentially, I think that one of the things that have been proposed is restrictions on startups and many types of businesses—for example, restaurants, service stations, and that type of thing.

These are restrictions far and above the $15,000 per job restriction and the normal eligibility in credit restrictions that the agency normally has and I think that the restrictions that are being proposed will hurt minority business development, minority business participation in the program.

Second, they are talking about making a minimum debenture of perhaps $50,000; and I think that that kind of rule also tends to exclude smaller financings and that should be really a local matter rather than a matter of Federal regulation.

The last comment that I have on the proposed rulings is that, as the rules and regulations make it tougher and tougher for a certified development company to operate efficiently, what we are going to see is more expense to certified development companies, more costs in terms of HUD community development block grant funds to underwrite these companies, and less financings produced per Federal dollar; and that would go for minority financings as well as financings in general.

I think that the proposed regulations that I have heard about are extremely restrictive in those areas.

That would conclude my comments.

Mr. MITCHELL. Thank you. We want to hear from your participants, but before we do, I didn't get gray fighting with David Stockman. Regan over at Treasury did not turn my hair gray; it's these crazy regulations that are proposed by SBA that have caused me to get gray.

Since I have been in Congress, every year they come out with a new, crazy set of regulations, most of which are harmful rather than helpful.

I want especially to get your whole testimony, but a special reference to your position about these talked-about proposed regulations because I think we need to nip some of that in the bud real fast.

So, if you will please make sure we get that—in fact, if you will pull those out, those recommendations separately, and get them to our general counsel, we want to start before they get printed in the Register. We want to start trying to block some regulations that I think are inimical to the best interests of minority businesses.

Thank you.

Mr. BAIRD. Thank you.

Mr. MITCHELL. Would you please present your participants?

Mr. BAIRD. Sure.

The first client to my right is Mr. Edgar Deas, and he is with a company that participated, and has participated recently in the 503 financing program in Sonoma County, which is to the north of us.

Edgar?

Mr. MITCHELL. Thank you, Mr. Deas.

TESTIMONY OF EDGAR DEAS, E&M ELECTRIC & MACHINERY CO., INC., HEALDSBURG, CA

Mr. DEAS. Mr. Chairman.

I am here through the efforts of a critically important small business development company. I do not have the benefits of many businesses in the bay area, which have a lot of help.

We established our business in a town of about 7,900 people. We started the business there in 1955. My father and I started it as a two-man operation. We wanted to get into business because we thought that was the way to go, and it was a privilege to get into business.

So, we went into business, and we quickly found out that that meant working 14 hours a day for wages, which we continued to do for a long time, and after about 15 years of that, we became an overnight success.

The business grew; my father more or less retired and stepped to the side, and I took over.

Around 1980, we were at 20 employees; business had grown quite well; and we decided to move and shift it slightly.

We are basically a motor repair facility—that is what we started to do. We are what is known in the industry as motor winders.

Mr. MITCHELL. Motor wonders?

Mr. DEAS. Motor winders.

Mr. HAYES. Winders, winders.

Mr. MITCHELL. Yes, winders. I thought you said wonders.

Mr. DEAS. No, no--sometimes we try to call ourselves that, but that is not really so.

But, anyway, we started in that business, and as our clients grew, they started asking us to do more things for them; so we became electrical contractors, along with the motor repair business.

We were electrical contractors for about 15 years of that time, at which time we discovered that we were buying our materials so well, that we were actually selling it better than we were going out installing it; so we actually dropped out of the contracting business, and became an electrical wholesale house, which we now have. We have an electrical wholesale house, and the motor repair facility, which are the two businesses that we are in.

About 2 years ago, thanks to some grants from the Federal Government, our city started a redevelopment agency, and started changing the downtown area and decided they wanted to have some more shopping centers, and lo and behold, one morning we woke up, and we were in a commercial, downtown zone; and we are zoned "light industrial."

It immediately became very obvious to us that we were going to have to move because we now had a major thoroughfare running in front of our door; and it was impossible to take deliveries from freight trucks or anything like that; so we immediately went to our bank and said, "Hey, we've got to move. We need some money."

Well, a year ago, banks were not really too anxious to do anything. They were telling us, "Well, you know it is very difficult; the interest rate is very high; we don't know exactly what the money situation is going to do, maybe you had better talk to the city because we understand they have some block grants, and it is supposed to help businesses to relocate that are going to be moved out of these areas."

I went to the city, and talked to the financial director of the city, and he immediately started inspecting his shoeshine, and shuffling around a little.

Block grants to cities, to small cities, go to repair streets and put in new sewer lines because that is community development in their eyes.

Therefore, there was not much chance that we were going to get any help although they did offer us $10,000 to help us move. After I made my quick estimates, it was going to cost in the vicinity of $80,000 to $90,000 to make the move, and it became obvious to us that we were going to have to do something else.

I received in the mail, by chance, a brochure, giving us some information on the 502 and 503 programs.

I immediately went back to the city and said, "Who do we speak to about these loans?"

The city said, "Well, we have no one who can do that."

I went to our local bank; our bank said, "We know nothing about these loans."

So then, I merely started making phone calls; and I got a hold of the Bay Area Development Corp., and that's when I talked to Mr. Baird, and I told him what our problems were. That's about 1 year ago.

We immediately started the process of doing paperwork. It took 6 months. We have a file that's almost a foot through. We have written everything about our company, and things about it I never knew have been written and documented.

Multiple copies have been made. I have signed thousands of copies of pieces of paper. Then, I discovered something very interesting. When the packets were completed, and Mr. Baird gave me the packets, I went to the bank.

The Bank of America was in the process of making some changes. They were no longer doing anything in local branch banks. They were creating centrally located real estate loan offices; so we were shifted off to Santa Rosa, which is about 14 miles away.

After I screamed and complained a little to our local manager, they sent us a loan officer from Santa Rosa, who sat across from me and told me that, frankly, she didn't know anything about these loans, and she didn't know where we'd fit in the boxes that she had to fill in in her loan application papers.

Luckily, very luckily, someone was transferred from the San Francisco area into the loan office who knew about the loans; and he was given our portfolio; and that moment, which was about 8 months after the process started, was the first time that we were making any headway toward acquiring this loan.

Two weeks ago, we received a commitment letter from the SBA. The Bank of America is now processing the construction part of the loan. Hopefully we have seen the end of the paperwork——

Mr. MITCHELL. No, you haven't——

Mr. DEAS [continuing]. It requires——

Mr. MITCHELL. I'm sorry, I shouldn't have said that.

Mr. DEAS [continuing]. I now have the tenacity to hang on, because that's what you need.

Mr. MITCHELL. Yes.

Mr. DEAS. And in a small area like ours, or in a small town like ours, I doubt whether you would reach one half of 1 percent of the minorities; it is just too hard; it is too difficult; you have to be sophisticated enough to go to your bank, to sit down, to pound on the table, to threaten to pull the accounts, if you have to.

And even at that, everything I have is signed on this note. That means house, cars, whatever is private is there. Everything we have must be put up for this loan, everything.

And that basically brings you right back to what everybody is complaining about, working capital. That's going to be the next problem we have to attack; and we have to really take a look at it, because in the last 8 months, we had to do the following.

This loan did not come through rapidly enough. We in effect actually had to set a short interim, 6 months' loan; we had to borrow by the month from the banks on a 6-month note and move to the new building with the assurance that, well, if the SBA loan doesn't go through, maybe we'll be able to do something; we'll be able to put some package together. And that's where we are right now. We are moved into a building in which we are basically camped out. There are no offices built in it yet.

Hopefully, construction will be able to start next month on the offices. It has been a real bear, and we have never asked anybody

to loan us anything which we would not pay back or on which we did not look good enough to pay back.

Basically, what I have to say about the loan is that they are very difficult for a small business, and if you do not have somebody to handle the paperwork, I don't think it can be done. I tell you in our area, there are probably 20 percent Hispanics, and there are a lot of Hispanics that are in business; and I have talked to them, and every one of them tell me the same thing: "We can't do the paperwork. We can't supply that kind of information. We can't show the projections that the Government wants to see. We don't know what they are going to be."

They are not sophisticated enough; and they do not have the tenacity to hang on to fight for these loans because that is what you have to do.

Mr. MITCHELL. OK, Thank you.

I certainly congratulate you for your tenacity. You had 20 employees. In going through this ordeal, have you lost any employees?

Mr. DEAS. No.

Mr. MITCHELL. You have been able to keep them all?

Mr. DEAS. We've got 28 now.

Mr. MITCHELL. Yes.

Mr. DEAS. In the last 8 months, we have added 8; we plan to add 5 to 10 in the next year.

Mr. MITCHELL. But you would not have been able to do that, had there not been this 6-month loan?

Mr. DEAS. No.

Mr. MITCHELL. Thank you.

Mr. BAIRD. The next witness is Dr. Shoshei Serata of a company that is located in Berkeley—Serata Geomechanics, Inc.

Dr. Serata?

Dr. SERATA. Yes.

TESTIMONY OF DR. SHOSHEI SERATA, SERATA GEOMECHANICS, INC., BERKELEY, CA

Dr. SERATA. Mr. Chairman, and the members of the committee. I am very happy to be here and to have the opportunity to thank you that your program saved my business.

I am an owner of a small business located in Berkeley near the campus, employing about 15 people involved with scientific work.

I was asked by Mr. Sobota and Mr. Jim Baird to present my case as an example.

The business I am in is geomechanics. Geomechanics is like automechanics. It has to do with the body of the Earth, or more specifically, we are specialized to design or improve, and assure the safety of structures created in Earth. Examples: mining, coal mining, salt mining, metal mining, or caverns created underground for storage of radioactive wastes or oils and the natural gases. Recently, we have been more involved with the earthquake predictions and the stability of major foundations such as nuclear powerplants. I have been in this business for the last 18 years since I left a teaching job in the university.

There is a challenge in this field. However, I have been crawling on the ground for 18 years because it is very difficult to receive any money from the Government for scientific work.

I started with my wife and one graduate student. It took a long time because first I had to build a machine shop, and hire a machinist, and start building the testing probe which I bring underground. Also, to analyze the data, I had to obtain the expensive computer; and then after getting the hardware computer, I had to develop the software; and still I am crawling.

However, because of the, I guess, good luck involved, I was able to put together this technology in a practical, usable form. That was last year.

And at that time, the lease on my building ran out; I was forced to find a new place. And we tried, rather, took a chance to complete this package in order to be able to start a business operation.

I was not able to arrange sufficient money to find a place. So, I had a few sleepless nights. I might have had to shut down, or I might have had to operate in the street.

But this is the time that Mr. Jim Baird, through a good friend of mine, extended his kind help. And here I am. The building is now nearing completion, and within a few weeks I will have my home for the scientific work.

Now, without this help, I would not be able to do what I am doing at the present time.

I would like to, if I may, give you a few examples that I am involved with at the present time. I am hired, my company is hired by the government of Quebec to design a new salt mine near Newfoundland, off the Canadian Atlantic coast.

We are now engaged with the government of Saskatchewan to develop a safer potash mining method.

We are hired by the Japanese Government to determine the forces in the Earth building up in the Japanese Islands in order to predict the next earthquake which might hit the metropolitan Tokyo area.

We are starting a testhole near the foothills of Mount Fuji next April.

We are asked by the Japanese Nuclear Power Co. to establish the safety of their foundations against the next potential earthquake.

Just this month or in the last several weeks, we have been called by the government of Hungary from Budapest to open an office there, in a government facility, to introduce my technology to the coal mines in the Eastern bloc nations.

I feel that I will be able to carry out these works, but I would like to ask you a favor. This is a favor I would like to ask now that I think we have results. I am having extreme difficulty in presenting this to the American Government, the U.S. Government.

One example is that I have a patent, for which foreign countries are paying royalty fees. When I present this patent application, which potentially saves large sums of money and hardships in coal mines, I have the very unfortunate reaction, or I should say, very cold response that I am rejected and told government funds should not be used to benefit a private enterprise.

Now, I feel this is strange because we are conforming to the regulations of the Department of the Interior to apply and obtain U.S. patents. One of the best places to apply this patent will be in the coal mines, with coal mine safety and design method being regulated extremely carefully by the Bureau of Mines and the MSHA.

So, I go to the Bureau of Mines and advise, talk to them—"This is the kind of thing with which you can save money and lives in the mines."

But I am having a very difficult time to find anybody to listen to me.

Meantime, the people outside the United States are taking advantage of it, and I don't feel this is right.

Now, another example is the instrumentation that I have developed. Each cost a quarter million dollars a set. The first one, produced by American innovation and American effort, went to Japan. Unit No. 2 also went to Japan—the first one went to the National Railroad; the second one went to a consulting company; now, a third one is going to a Japanese consulting company.

I have one more point to finish up my testimony here. Radioactive waste storage in the underground is a major undertaking; and the Government has been doing an extremely careful job. However, they are not willing to consider the inventions developed by small business.

First, I went to Washington and met the officials in the Department of Energy, and they sent me to the local office. I went to Columbus, a local office, the only office for nuclear waste isolation. Then they sent me to Richland, in Washington State. There they gave me beautiful, very friendly lip service; but finally I end up in Washington again, a year later. This time they say, "I guess you are wasting your time. There is not much chance, to be very honest."

So, I hope you are kind enough so I don't repeat the same kind of process.

So, I am not asking anything special, but if you are putting so much effort in helping small business, it would be awfully nice if you could also help small business to get Government agencies to listen to their inventions.

Thank you very much.

Mr. MITCHELL. Thank you.

You anticipated some of my questions. I was making notes—Quebec, Saskatchewan, the Japanese Government, Japanese Nuclear, Hungary——

Dr. SERATA. Yes.

Mr. MITCHELL [continuing]. And I was saying to myself, "Why aren't we in it?"

And you proffered this service, and you have been rejected. Is that it?

Dr. SERATA. Yes.

Mr. MITCHELL. Obviously, as a Member of Congress, I can't market for anybody. I think that would be a very, very serious conflict of interest. I do think that this is the kind of thing that should be looked at under the innovation research program. We passed a law over the resistance of many, many people last year advocating

the utilization of small businesses particularly in innovation and research.

And I would like for you to get with Mr. Sobota right after the hearing if you would, because it seems to me that's the natural approach, through the Innovation and Research Development Act.

And by the way, I just talked with some officials at NASA who have been very, very pleased about the work of small business in innovation and research. They want more. I am not committing myself to market your product. I do commit myself to try to open up some doors for you through our staff and through the Innovation and Development Research Act.

How many people do you employ?

Dr. SERATA. Fifteen.

Mr. MITCHELL. Fifteen. All right.

Could we hear from our next witness?

Mr. BAIRD. Yes. The last people that will be testifying on our panel will be Mr. Jose Molina and Ms. Uzelle Williams of the American Duhl Corp. Dr. Serata is a 502 loan recipient of ours, and then American Duhl Corp. is a 503 loan recipient.

Mr. MITCHELL. 503. OK.

Fine, we would like to hear from you.

Mr. BAIRD. One word I might add is that Mr. Molina will be speaking through Ms. Williams as an interpreter.

Mr. MITCHELL. Fine.

TESTIMONY OF JOSE MOLINA, AMERICAN DUHL CORP., SACRAMENTO, CA, THROUGH HIS INTERPRETER, MS. UZELLE WILLIAMS

Mr. MOLINA [through interpreter Ms. Williams]. Mr. Chairman, and members of the committee.

First of all, I would like to apologize for not being able to address you in your own language.

Although I don't have very much time now, I continue to study it, and I hope that perhaps the next time or in the future, I will be able to do that.

American Duhl Corp. is a company that is duly constituted in the State of California. It is composed of 50-percent American stockholders, and 50-percent Spanish stockholders.

We do have a manufacturing license, and we are affiliates of a firm in Spain called the Duhl S.A.

Duhl in Spain was the first company 13 years ago to put prepared flan, a custard-like dessert or snack, on the market.

Mr. MITCHELL. Where is the company located in Spain?

Ms. WILLIAMS. In Granada.

Mr. MITCHELL. In Granada.

Mr. MOLINA [through interpreter Ms. Williams]. And since that time, we have been able to maintain ourselves as leaders in the market of prepared flan, and Duhl in Spain has diversified and now produces 14 other products besides flan.

In 1982 we considered the possibility of producing and marketing flan in the United States, and we embarked on carrying out the necessary preliminary market studies.

The decision was made to come to California because of the growing numbers of Hispanic people in the State who already know what flan is.

So, at the beginning of 1983, we were firmly installed over here, and we started on the path to financing, resolving financing.

In terms of financing, we are faced with some problems, as the Spanish Government allows only so much money to be taken out of the state; and that was one limitation that we had; and other lending institutions did not have enough confidence in our project, given that for the population as a whole, flan is not well known.

We did make contact with various banks who replied negatively, and that they did not have enough confidence in the project; and it was recommended that we look for venture capital.

Those venture capital companies, of course, wanted to put conditions on financing that really were unacceptable to us; and at that point, the project was at the point of closing down.

At that point, we made contact with Wells Fargo Bank, which did manifest an interest in our project.

And that was the first time that we heard of the SBA 503 program.

And that was when we made first contact with Jim Baird and his company, and we started the first step in the paperwork to the 503 loan.

We are very thankful. We thank the bank as well as the SBA and its program that has really made this project possible.

But from the time that we first filled out the first papers, the paperwork has been somewhat overwhelming, and the process has been very slow.

I recognize that our project was perhaps a little different than some of the other projects. We had to get a lot of information from Spain, plus the fact that our product is not well known in this country.

In the middle of this, the new regulation went into effect limiting financings to $500,000, and what that meant for us was that we had to raise more capital, which was very difficult at that point.

But we were able to resolve it. We had the grand opening of our factory in Sacramento on November 1. We expect to employ about 40 people. We have got half of them on staff right now. We are in the testing period, and here you have the results.

Thank you very much.

Mr. MITCHELL. Thank you.

Is one of those mine?

[Laughter.]

Mr. MITCHELL. While you are at it there, there are certain other commodities, foodstuffs associated with various ethnic groups that I will talk to you about—maybe you might want to branch out a little further.

There is something called in the vernacular "wrinkle steaks." Now—I'll talk to you about that later. It goes by several other names, chitterlings, and so forth. Might I ask you, what was the total cost of getting this plant started?

Mr. MOLINA [through interpreter Ms. Williams]. OK, our capitalization is $1,600,000; and the credits between SBA and Wells Fargo amount to $950,000.

Mr. MITCHELL. That's what I wanted to get at.

I wanted to follow up on one thing. You now employ 20 people. You are projecting a growth to about 40 employees, right? Will that represent a maximum or do you plan employment growth beyond that point?

Mr. MOLINA [through interpreter Ms. Williams]. The 40 employees will be for one shift, which we will obviously start out with. Now, if we go to two shifts, we will probably go up to 70.

Mr. MITCHELL. Thank you.

Thank all of you very much.

The one problem that has been made clear, and that is not new to me, is paperwork.

[Laughter.]

Mr. MITCHELL. And it is so interesting that a Commission to reduce paperwork was set up by the Congress, I think, in 1980—and, as I recall, that Commission produced a report involving significant increase in paperwork just to carry out its job.

So, I am sympathetic. I hear this all the time. I don't know how we can cut down on the onerous paperwork; but I am glad, Mr. Deas and all of you gentlemen, that you persist.

Sometimes I think Government is the worst enemy to small business, not by intent but by policy; and I just tell everyone, "Hang in there. Keep fighting."

And I am glad you did. You are on your way now.

Thank you.

We are going to take a 10-minute break, not to sample the flan, but to discuss these other ethnic commodities that you might be interested in.

Let's take a 10-minute break and be back at a quarter of 12.

[Recess.]

Mr. MITCHELL. I would like to get started now if we could.

It is just about a quarter of 12, and we have quite a few more people to hear from, and certainly we appreciate your patience.

Our next panel is Mr. Arnold Bellow, the executive director of the Oakland Business Development Corp. Mr. Gene Nash; Mr. John Grant; and Mr. Paul Casey.

Gentlemen, thank you very much.

Someone's missing.

Mr. WILLIAMS. Mr. Grant. John Grant, one of our clients is not here.

Mr. MITCHELL. He is not able to be here?

All right, thank you. We are at your disposal.

Mr. WILLIAMS. I am speaking on behalf of Arnold Bellow, the executive director of the Oakland Business Development Corp.

Mr. MITCHELL. And may we have your name, please?

Mr. WILLIAMS. My name is Henry Williams.

And the name of the other participants here are Gene Nash and Paul Casey.

Gene Nash is with Gene's Office Products; Paul Casey is with Grand Avenue Van & Storage. Both are Oakland-based companies.

TESTIMONY OF HENRY WILLIAMS ON BEHALF OF ARNOLD BELLOW, EXECUTIVE DIRECTOR, OAKLAND BUSINESS DEVELOPMENT CORP.

Mr. WILLIAMS. Honorable Chairman, and Honorable Congressmen.

We appreciate this opportunity to have a chance to speak to the many issues of minority participation in the SBA programs, and we certainly feel that it is a great opportunity for us to give you some feedback since we are out on the firing line in terms of working with minority companies and trying to resolve many of the concerns that they have concerning small business financing, and in particular the SBA 7(a), 502, and 503 programs, but this is specifically structured toward the 503 program.

First, let me say that our corporation is a new certified development corporation. We have been in operation for a couple of months, and are trying to go out and market our program to many of the minority and also other companies in the area.

And we have targeted a number of areas in which we have put forth a great marketing effort. We designated eight areas in Oakland. I have covered two since the time that we have been marketing our program, and we have discovered that as part of this marketing effort there have not been that many minority companies out there that are filling the criteria for the SBA 503 program.

In fact, of the 10 active packages that I am presently working on now, only one of those packages is a minority company.

And of the 5–10 prospects that I presently have inhouse, none of those are minority companies. So I think we have a problem with structure in terms of the 503 program, because it is not really addressing many of the concerns of many minority companies.

Mr. MITCHELL. For example, what criteria don't they meet?

Mr. WILLIAMS. Well, for example, first let me say that many of the other panel members that were here earlier have spoken to a number of the issues that concern many of the minority companies, and have spoken to those issues fairly well; but let me stress one problem that many minority companies have, and that is the issue of working capital.

The 503 program, as you know, is a fixed asset program and it is designed for those companies that are purchasing real estate and doing capital improvements.

Many minority companies have a problem just surviving from one day to the next, and from one year to the next, let alone having to go out and purchase and tie up capital in a plant which they may not be able to occupy, or may not be able to benefit from, in the event of having some unforeseen cash flow problems.

I think the issue of cash flow was spoken of very well, but I just want to stress that the problem of working capital, particularly the SBA 7(a) program which deals with working capital, really hasn't been addressed very much; and I don't intend to address that in great detail, but I did want to say that there is a critical need for more support in that area. Because if you have just a building, and you have no company to put in there, you don't have economic development; you have catastrophe.

So, I wanted to say that the need for capital just to operate on a day-to-day basis is critical. I also have a recommendation, and I believe it was a recommendation made earlier in this year concerning the 503 program, to have working capital incorporated as part of that program. I think that that particular proposal was a very good one, because you find the situation where a lot of companies, once they even get a 503 loan, have a period, a time lapse, in which they are in need of capital; they may have had a time lapse in the time in which the funding was available; they have to move plant and equipment, which are all very costly; and they have costs that are continuously incurred in their growth. For example, hiring new employees, which is very costly.

So, we have things that are affecting the companies' capital base. So, therefore, if there is an unforeseen financial downturn in the company, it could severely affect their ability to repay even the 503 loan.

So, I think the issue of having a combined 503 and other working capital assistance is critical, especially in this kind of market.

And I think the nature of the 503 program itself is such that it is a fairly conventional program, and many minority companies are having great difficulties in getting conventional financing; and I think that that was also expressed earlier by some of the other witnesses and one of the bankers, and that banks like to do larger deals.

Typically, the minority companies have been doing deals that have been under $500,000, in which case the 502 program has been used more than the 503 program.

But even in doing a 503 deal that is under $500,000, in many cases the lender will have substantial collateral requirements or other stringent credit requirements which may prohibit the small business concern, particularly the minority small business concern, from being able to qualify for that assistance.

Also, many minority small businesses are pretty turned off to the idea of having to work with the bureaucracy, such as the SBA, and the SBA means bad things to a lot of people. They hear horror stories about people going in and trying to get financing and not being able to do that; and when you have that perception from the outset, that they won't be able to achieve their results in terms of getting the financing, then you are going to have a group of people who are not as enthusiastic or who don't really believe those programs are designed to work for them. I think that a greater marketing effort on the part of the SBA, as well as the CDC's could help to create a much more pleasant atmosphere in terms of familiarity with the SBA's programs, and just how the SBA works.

I think they see the SBA as some big large bureaucratic governmental organization that is impersonal. They don't see the people behind the SBA. There are a lot of good people that work for the SBA, and I am not trying to be overly hard on the SBA. I think the programs that the SBA have are excellent, and we need more.

I think the whole national emphasis in this country should be shifted more to assist small businesses. There should be a greater emphasis placed there. I think they are assisting small businesses, and I think that the SBA is an excellent vehicle to help to facilitate that; but on the other hand, I think that there needs to be a

greater sensitivity for the needs of the small business community, particularly in the minority business community in which you have people who have unique needs and who have more than simply financial needs.

In our corporation, although we haven't really been licensed very long as a certified development corporation, we have operated as a community-based economic development corporation, and we have a direct loan program with which we have addressed a number of the local needs for companies in the Oakland community.

Particularly, we not only provide direct loans, but we also provide substantial management and technical assistance. We go out of our way to assist clients in a very meaningful way, in terms of identifying problems that they have, in helping them to identify ways to resolve those problems, even in bringing in outside resources.

When I say, resources, I am not talking necessarily of financial resources. I am talking about professionals—accountants, and other people—helping to reconstruct financial records; for example, and going out there and providing that critical need for management and technical assistance, particularly minority companies, because that has been a major problem for them in having this adequate management assistance to be able to address a bank, to be able to resolve a lot of the issues that come up when you are talking primarily about conventional lending.

So, our effort has been to do a combination of providing financing as well as filling the void in the area of management assistance.

In addition, I think the price of real estate in the San Francisco bay area has been a prohibitive factor in terms of not only minorities, but also other companies participating in the 503 program, particularly for larger projects.

As you know, or may have heard statistics about the real estate in the San Francisco bay area—it's very, very expensive.

And, so, it makes it difficult for minorities and other companies to qualify just on that ground alone, and then you tack on the additional SBA job requirements of one job per $15,000. I think that the objective of having employment tied into that program is a very good objective, but I think when you narrow it to $15,000, you certainly impede the ability of a number of minority companies to fulfill that requirement then. I think that it was spoken to earlier, that the national objective of having representation by those that are benefiting from these Government programs—I think those objectives can be met, just based on having minorities participate in and actually benefit from having loans through the SBA.

So, I think there should be a little more flexibility in that area.

And the whole issue concerning the definition of what is a minority is something I thought was addressed here, and I just wanted to highlight that briefly too, because it affects so many black companies in this area. I want to speak specifically to that issue of when you say minority. We are talking about a whole host of individuals here, and particularly some people will lump women, blacks, Asians, Hispanics and other groups in that category; but when you break that down, you may find that there is a substan-

tial underrepresentation of particularly people of color—black people in the grouping of minorities.

You can look at that across-the-board, not only in terms of the direct SBA programs, but even in the 8(a) programs where minorities are black, or participation in the set-aside governmental contracts. There is just underrepresentation there, and I think that needs to really be addressed, and I think that there has to be a role played by the Government in helping to better facilitate equity in that area.

Mr. MITCHELL. I think you have a point, but I think the record ought to be clarified that in terms of the 8(a) program alone, just that program, it is 60-percent black.

Now, you get into all other kinds of problems when you get into the 10-percent set-aside of the Surface Transportation Act and the set-aside under the foreign aid legislation. There, we have not established sharp enough criteria in my opinion to make sure that there is an equitable spread.

But I did not want the record to reflect that the 8(a) program was not equitable in the sense of black participation. It is. There are a whole lot of other problems with it; but on that score, it is OK.

Mr. WILLIAMS. Right. I am not implying that the 8(a) program is inequitable. I am just using that program as one of others to show that I think there can be more minority participation——

Mr. MITCHELL. Right.

Mr. WILLIAMS [continuing]. In several programs. So, with that in mind, I would like to just open it up to the other members of the panel to address their experience and their understanding of how SBA programs work, and how it has affected their operation. In fact, both of our clients here have had SBA loans in the past and have worked with the SBA before, so they are knowledgeable about working with the SBA.

And first, I would like to talk to Mr. Nash, and let him address the issue of——

Mr. MITCHELL. Just before we hear from him, you have a direct loan program, right?

Mr. WILLIAMS. That's correct.

Mr. MITCHELL. How is that capitalized? How much money, have you got in the direct loan program?

Mr. WILLIAMS. OK. We presently have $387,000 in our direct loan program. Those funds are through the Community Development Block Grant Funds.

As you heard earlier, some of the CDC's around the country have capabilities of having a direct loan program, and the Community Development Block Grant Fund is our direct loan program.

Mr. MITCHELL. Right. And——

Mr. WILLIAMS. Unfortunately, that fund though is not adequate enough, is not substantial enough to——

Mr. MITCHELL. I was about to say——

Mr. WILLIAMS [continuing]. Help——

Mr. MITCHELL [continuing]. That is not nearly enough.

Mr. WILLIAMS. That is not enough to help the great needs we have out there.

Mr. MITCHELL. OK, I'm sorry.

Mr. Nash?

TESTIMONY OF EUGENE NASH, GENE'S BUSINESS MACHINES OAKLAND, CA

Mr. NASH. Mr. Chairman and committee members, first of all, I'm honored to be here today and especially here in Oakland, in my hometown, the beautiful city of Oakland.

My name is Eugene Nash, better known as Gene, and I own Gene's Business Machines here in Oakland. I've been in business approximately--well, I'm into my 16th year. I at one time employed up to 42 people, and I've been working toward all of the goals that have been mentioned here this morning and training people, especially in the minority community, in various technical, and sales positions.

My business is office machines, computers, typewriters, copy machines, and office furniture. We have projects and we are doing projects all over the county in office supplies.

Just back in February, I sold my office machine division to a company, and with that, of course, went 17 of my employees so now I'm down to approximately 28 employees.

I would like to say that I have had three SBA loans and I don't see anything that's wrong with SBA other than the fact that perhaps they do, between the SBA and the banks, they do tie up all your assets so that if you did have a cash flow problem you would probably find yourself out of business.

As a matter of fact, with my first SBA loan, the loan was for only $10,000 and they tied up two homes that I had plus everything that I had in my business, so if I had not had a cash flow in those years I probably would have lost all of that because I had no other source to go to.

I would also like to report that I was the first person to get an SBA loan in the city of Oakland, I'm very happy to say.

I would also like to say that back in 1981 I was selected as the most outstanding business person in region 9, which covers, I think, Arizona, Utah, Hawaii, et cetera, et cetera, and I was in nomination to be the businessman of the yea. back in Washington. Someone back in Chicago beat me out, but anyway I was in there fighting and I was very happy of that.

I've worked very closely also with the Oakland Business Development Corp. and also I've received a loan from them, and one of the requirements which I think should really be changed, and I don't want to keep beating a dead horse, but the requirement of $15,000 per employee is outrageous. I think it should be raised to either $35,000 or $50,000 per person especially if you have an ongoing business and you already have people. Of course, in my particular case I didn't have any problem meeting those requirements.

Getting to the 503 loan, I think that along with that that we should seriously think, SBA should seriously think, in terms of giving some very, very long working capital along with that 503 loan. I think that's just so essential now.

I'm speaking in terms of the services and goods I sell and of what happens with a small minority company. First of all, we have a problem dealing with the manufacturers. They want their money;

they don't extend the big credit lines to you; you have to put down deposits. I've been in business 16 years, and with some companies I have a half-million-dollar line of credit and with others I only have 50 because I'm taking some business away from some of the other boys.

It gets to be very political, so they keep the squeeze on you, and it keeps you in a cash flow problem. You can't do without them because you need their products.

It's really a fight, and I've got some stories and I hope in the next couple of years you can perhaps read my book. I've been writing a book for 15 years as to the fight that I've been fighting for the last 15 years just to stay in business in a nontraditional type of business, and believe me I have some stories behind it.

On the long-term working capital, as to why I say it's so important, the manufacturers don't want to sell to you in the first place. They require you to put up all these deposits. I've had hundreds of thousands of dollars up for 6 months waiting for special furniture to be made, and then of course you've got to wait until the end user pays it, so that is an extremely bad situation for some of us.

Believe me, I've even had manufacturers tell me not to sell to certain companies, because I also do a great deal of business with the major Fortune 500 companies and even that gets stinky because they will mess up your orders and do everything else to keep you out.

They don't mind if you do the $10,000 jobs. They're not concerned about that. When you start doing the $100,000 and $200,000 jobs, they start looking at you very close and at anything they can find.

That's why it's essential to get some long-term working capital. I think it's just totally essential.

Now I know there have been several things said this morning, and I could probably talk on for a week, but I'm going to close because most of the things that were said this morning I could very easily relate to them.

I would just like to go back and emphasize one more thing, that we need some type of long-term working capital

Thank you.

Mr. MITCHELL. Thank you.

TESTIMONY OF PAUL CASEY, GRANT AVENUE VAN AND STORAGE, AGENTS OF UNITED VAN LINES

Mr. CASEY. My name is Paul Casey and I'm with Grant Avenue Van and Storage, agents of the United Van Lines.

We happen to be the only black United Van Lines agent in the world. There are over 600 agents in the country, and there's only one black and that's here.

There are several points I would like to address. Most of the items I had in mind have already been addressed over and over again this morning, so in the interest of time, I'll limit my remarks to a few I feel that have not been addressed.

The minority concept in a program is great. However, once again, the black portion in there, I can't emphasize that enough; because we are in direct competition with many minority groups

here. We have lost contracts, many contracts, to most all of the major companies here because of the wording per se in the minority concept.

In this area, there are many minorities. I suppose at any one time or another anybody can be a minority. There is no group that can't be a minority at any one time or another, and it's been talked about here earlier, and I think that should be defined a little more.

My company was born right here in Oakland. We are housed in an area that has the largest amount of unemployment, and because of our financial status and the inability of banks or any financial group to help us to be financed correctly, or to give us any type of assistance at all, we can't reach out into the area and hire these unemployed.

We find ourselves as much behind the eight ball as they are. We fight for existence. Yet nobody can reach out and help the young blacks coming out of school or just loitering around the streets. Nobody can help them and I find this very, very strange in a country that has plenty of everything.

Along with that, there are approximately 168 moving companies in this area. There is only one large black company that's capable of doing any kind of job in this area, and that's our company. We presently employ 25 and above, but the major companies will not do business—we are constantly told, our salesmen are constantly told, we're already doing business with minorities.

The Federal Government puts out contracts. There are many contracts flowing through the area. Apply for these contracts. With every contract there is a labor determination attached to it.

Now in order to hire the unemployed and people who are inexperienced, how can you accept a Government contract with a labor determination attached to it and hire somebody who is unemployed and pay him union wage?

It's ridiculous. We have found it to be so. We tried one of them once and almost lost our shirt. The major companies said, well, your crews are not up to par, you don't have the experience.

I've been in the business 26 years. On Saturdays and Sundays we have classrooms. I taught these drivers how to drive, how to do every phase in the moving industry. Our entire staff has approximately 15 years or more, and yet we don't have the experience.

We are the only company here in this entire area that does have the type of training that a company should have, that a moving company should have. We take it to the board. I'm from the old school. I believe everything goes on the board and you point it out so we do that.

We require our people to be in uniforms, readily identifiable because there is so much on TV today; if there is something wrong in the black community, you're going to find it on TV; so we try to combat that.

Yet under the Government contracts—there are many that could help our company to survive—but with the union problem and that labor determination, we can't go out and get those contracts because we do not have the type of money needed, and nobody will supply the type of money to get those contracts, and it takes quite a lot.

If you take a Government contract, you may get paid for it in 60 days. You may. It depends on how much effort you put forth. Maybe in that 60 days you may be in business, but you've already committed yourself, so the Government contracts would have a clause attached to it if you do not perform we'll go out and get another contractor to perform and then you pay. That's fantastic.

The whole concept of minority enterprises is great, but there are a lot of weaknesses in there that run the black businessman out of business.

Mr. MITCHELL. Thank you. Let me just say that certainly during the time that I've been in Congress and Congressman Hayes has been there, we are constantly chipping away at those impediments that keep the program from working well and it's a large task, but we do try.

I think we ought to try to clear up this business of the definition of minority. The general rule of thumb is that we follow the definition of minority that is set forth in the Small Business Act. That's the only definition that I know of that is codified into law, and that's blacks, Hispanics, American Indians, and Asian-Pacific Americans.

In that definition, women aren't even included.

I think your problem comes in that various entities, including cities and States and so forth, broaden that definition to include many other groups, but under the existing law we try to go by the definition as specified in the Small Business Act.

Administratively, an agency can say we will identify women. Administratively, but under the law that's our definition, and it does work a problem for us, I know.

I also want to speak to the matter of union contracts. In this country, I think we need everything. I think we need organized labor and everybody else, and I'm very supportive of organized labor.

In my own city, I did recognize the problem, particularly in construction where there was a black construction firm and it had nonunion employees.

What I tried to work out, and did succeed in working out in my own city, which is Baltimore, MD, was a kind of gentleman's agreement that on the union side, until that minority firm gets big enough and strong enough, let's go along with them. Once it's big and strong enough, then go in and try to organize.

I can only throw that out as a suggestion that could be worked out locally with some of your unions. I found them to be receptive for black businesses.

Your problem is the contract itself, the Federal contract itself, and I made a note to try to see what we could do to relax that requirement somewhat when it comes to black and minority businesses.

Congressman Hayes.

Mr. HAYES. I think you adequately dealt with the point that I had some concern with. If you don't know, I'm still a dues paying member of a union, and I was quite concerned.

You said that for 26 years you've been in business. I wasn't quite clear as to whether or not you operate as a franchise with the national company of United.

Mr. CASEY. As a franchise.

Mr. HAYES. And you're competing with other big national companies, I gather.

Mr. CASEY. That's right.

Mr. HAYES. The one that operates out of Fort Wayne, IN, North American. They're a big outfit and go all over the country.

I didn't know whether you were saying that you were prohibited from getting contracts because of union restrictions which placed you in a position where you couldn't compete because of the wages.

I guess you do have some union drivers. You say you have a rather massive training program. Is it that you pay your drivers less than someone whom you compete with now? I just don't quite understand. I don't want to detour our discussion here, but I just would like to get clear because I think Parren came up with the answer which we use a lot of times when you do have such a problem. We've been able to talk to some of the unions and say, look, let him get started, but you've got quite a track record. You look pretty prosperous.

Mr. CASEY. Thank you. I, too, am a card holder of Teamsters. I understand the problem. Every moving company in this area is trying to get out of the union. They are strapped.

Our union problem is local, not necessarily across the country. We do have drivers running across the country but it's a local thing.

Take the Hyatt here, the hotel. We were practically sitting on that contract, but the union wouldn't let us do it. All the people in the city of Oakland as well, but the union wouldn't let us do it.

It's not that we pay less. It's that the union wants certain items that we can't give them.

Mr. HAYES. For example?

Mr. CASEY. For example, they want the retirement benefits. They want to be able to do something with that. Our members are on profitsharing plans. The union doesn't get to touch it, you see, and it doesn't particularly care for that.

As far as wages, in some cases our men may make less until they get up to a certain level of experience, but in wages, we're right up there.

Mr. HAYES. You may have a local situation here which I may not be familiar with, but it could have spillover into certain racist tendencies too, you know. You could in the eyes of some people get in the position where you become too big, you know.

Mr. MITCHELL. I would like to make a suggestion, and really this should not be a part of this hearing, but I recognize some local problems require local solutions, and it would seem to me that we could get some entity like the minority chamber of commerce to sit down with the local unions involved, such as in your case, and see if something can't be worked out, at least on a temporary basis.

It's worth a shot. You're not winning it now, and therefore I would recommend that maybe you approach your local chamber and see if that can't be done. It may not yield any dividends, but what will you have lost?

That's only in the form of a recommendation.

Mr. CASEY. Right.

Mr. MITCHELL. Gentlemen, thank you very much.

Our next panel will be Ms. Barbara Morrison, Mr. Ray Tom, Mr. Ignacio Palomarez and Mr. Robert Sims.

Ms. Morrison, Mr. Tom, Mr. Palomarez—is he here?

Ms. MORRISON. Mr. Palomarez is putting some money in his parking meter right now and Mr. Sims is not here.

Mr. MITCHELL. Ms. Morrison, we're at your disposal.

TESTIMONY OF BARBARA H. MORRISON, ASSISTANT TREASURER, BAY AREA BUSINESS DEVELOPMENT CO., SAN FRANCISCO, CA

Ms. MORRISON. I am Barbara Morrison and I am assistant treasurer to the Bay Area Business Development Co.

Like one of my predecessors, Mr. Baird, we are a regional CDC. We operate in the nine bay area counties. We are a nonprofit corporation and we are not affiliated with any city or State government. We have not ever had any Government funds at all.

We were certified in May of 1982, 2½ years ago. Since our inception, the BABDC has always been the most active CDC in northern California. To date, we have a total of 120 loans approved. That reflects both 502 and 503 loans.

Of the total, 24 of them are from minority owned businesses. That's an overall total of 20 percent.

Nationally, since the inception of the 503 program——

Mr. HAYES. Could I just ask a question? I may have to leave.

Ms. MORRISON. Certainly.

Mr. HAYES. Of the 24 minority owned businesses, how many of those are black, do you know?

Ms. MORRISON. I'm sorry I didn't break it out. It's a small percentage, I would say. The bay area has a large Asian population, and probably the majority would be Asian, and then after that I don't know, but I certainly can get you the statistics which I'll be happy to do.

Mr. HAYES. Will you do that for us, please?

Ms. MORRISON. Certainly. I haven't prepared any testimony, but since I will be quoting a great deal of numbers I will be happy to send you——

Mr. HAYES. I appreciate it.

Ms. MORRISON. As I was saying, the 503 program—while I don't want to downgrade its importance; we use it a lot and it's a very important program in the bay area—but it's inception has coincided with nationally the general tendency to eclipse the 502 program.

It is my understanding that the San Francisco district office is one of the very few in the country that still utilizes the 502 program.

We, as a CDC, utilize the 502 program extensively, and I think that our experience suggests that there is a very different minority participation in the 502 loans as opposed to the 503 loans.

We have a total of forty-six 503 loans of which 6 are minority. That's only 13 percent. We have a total of seventy-four 502 loans and 18 are minority. That's 24 percent.

The 502 program has several advantages for smaller deals. Our average 502 loan is approximately $275,000. Our average 503 deal is $1 million.

It is very clear that we are using the 502 program at the smaller end of the project scale. The reason for that is, No. 1, it is less expensive in terms of up-front fees to the borrower. It is less complicated, which is very important.

In the smaller deals where we're talking about a little $100,000—in San Francisco that's little—warehouse and you're talking about unsophisticated borrowers, people who have perhaps never bought real estate of any kind before, the 503 program is very threatening, I think, because it is so complicated to explain.

In addition, the 502 program is less time consuming, which means we can close faster, and that's important to deals of all sizes. Also, I would like to add to what other people have said, the 502 program doesn't have the employment restrictions.

We feel very strongly that the employment restrictions on the 503 program, the one job per $15,000, is very, very restrictive; and that, I think, hurts a lot of the smaller projects. That's another reason why we do a lot of the small projects through the 502 program.

In terms of the message that we've gotten from our district SBA office, they have emphasized jobs, jobs, jobs; don't bring in deals that don't meet that one job per $15,000.

In their defense, I'm certain that they're not cooking that up on their own. I'm sure that they are responding to instructions that they've gotten from region or from Washington or wherever, because there is a change.

I've been working in this program for 6 years altogether, and definitely in the beginning of the 503 program, the job criteria was not as stringently applied. I think that the district office was much more flexible earlier on in the program. I think that flexibility has largely vanished.

502 has gotten some bad press, I think, and I think one of the reasons that I've been told that SBA doesn't like the 502 program is that 503 provides more bang for the bucks.

I have some numbers here reflecting fiscal 1984 that were just given to me by the district office and I think that they are very interesting.

In fiscal 1984, the district did a total of one hundred and eight 502 and 503 loans. They are split exactly down the middle, fifty-four 502 and fifty-four 503. The dollar amount of SBA participation is virtually identical, $15,719,000 in 502 versus $15,582,000 in 503.

Moreover, the 502 $15 million is a contingent liability. The $15 million in 503 is money that was actually raised in the treasury marketplace.

In that fiscal year, we did thirty-one 502 loans versus twenty-one 503 loans, so you can see that we utilize the 502 program.

In terms of reaching the minority community, obviously I think it's a function of reaching the community as a whole. I think that when the 503 program was created, it created the Certified Development Company and one of its primary roles was to market the program and to be responsive to the community needs.

We have tried very hard to do that. We do a great deal of marketing. A lot of our time is spent in meeting with everybody that we can possibly think of that would need to use the program and I really believe that is the CDC function.

I definitely don't believe it's the SBA function, certainly not at the local level. At the SBA San Francisco district office, the loan officers are so overworked just processing the applications that they have that if they were to be out in the field marketing the program the turnaround time would fall to nothing, and the program can't survive if the turnaround time at the district office falls off any more.

The district office, as I'm sure is true across the country, is obviously understaffed and overworked, and I don't think that there is room for them to do the marketing that perhaps some people think is their role. I really think it's the CDC role, and maybe if there is marketing to be done, it could be done on a general mailing from the regional office or the central office or whatever, but I don't see that there is room for it locally.

So in summary I feel that the 502 program should be emphasized more than it is, and I think it serves the minority business community perhaps better than the 503 program. Also, the 503 program's requirement of one job per $15,000 could be changed.

[Ms. Morrison's correspondence and prepared statement follow:]

PREPARED STATEMENT OF BARBARA H. MORRISON, ASSISTANT TREASURER, BAY AREA BUSINESS DEVELOPMENT CO., SAN FRANCISCO, CA

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December 10, 1984

Major L. Clark, III
Staff Director
U. S. House of Representatives
Small Business Committee
2361 Rayburn HOB
Washington, D. C.

Dear Mr. Clark:

Enclosed is a summary of my testimony before the Small Business Committee on November 28, 1984. At the request of Mr. Hayes, I reviewed our list of projects to determine the number of black-owned small businesses that we have assisted. To date, out of 24 minority 502 and 503 loans, 2 of these were provided to black-owned businesses, one 502 and one 503.

I was very pleased to be given the opportunity to testify before the committee. If I can be of any assistance in the future, or if you would like any additional information please do not hesitate to contact me.

Sincerely,

Barbara Morrison

Barbara H. Morrison

Enc.

BHM:ms

Barbara H. Morrison
Bay Area Business Development Company (BABDC)
San Francisco, CA.

BABDC is a regional CDC, certified in nine Bay Area counties since May, 1982. We are a nonprofit, nonaffiliated CDC; we have never received any grant funding from any source. Since its inception, the BABDC has always been the most active CDC in Northern California.

To date, the BABDC has 120 approved SBA 502 and 503 loans; 24 of these, or 20% of the total, are for minority businesses. It should be noted, however, that minority participation in the 502 program is significantly higher than in 503. The breakdown is as follows:

46 total 503 loans, 6 minority businesses - 13%
74 total 502 loans, 18 minority businesses - 24%

The 502 program offers several advantages over 503, particularly for smaller projects. It is less expensive for the client in "up front" costs - loan points, attorney fees, etc. - it is less complex and less restrictive with regard to employment criteria which we find particularly difficult for smaller projects. Our average size 502 loan is $275,000, while average 503's are $1 million.

The 1984 fiscal year-end figures for 502 and 503 loans in the San Francisco district show that this district did a total of 108 loans, exactly half were 502 and half 503. While it has been argued that 501 loans are more popular with Congress because they provide a "bigger bang for the buck", the SBA dollar "share" in 1984 was also virtually identical: $15.7 million 502 and $15.6 503. Although the 503 portion represents only 40% of the total financing and the 502 guaranteed portion represents approximately 81%, the 502 dollars are only contingent liabilities while the 503 dollars were actually raised in the treasury market.

502/503 PARTICIPATION FOR FISCAL YEAR 1984

	502		503	
LDC/CDC	#	$	#	$
Bay Area Business Development Company	31	$ 8,288,118	21	$ 7,834,000
Bay Area Employment Development Company	12	5,121,900	9	1,886,000
Los Medanos Fund	5	1,299,330	1	320,000
San Francisco Industrial Development	2	534,690	1	217,500
Arcata Economic Development	2	96,930	2	458,000
Economic Development Company - Shasta County	1	153,900	2	231,000
Economic Development Foundation of Sacramento	1	225,000	13	3,945,000
Economic Development Company of Sacramento			3	250,000
Amador Economic Development Company			1	147,000
Butte County Economic Development Company	—	—	1	294,000
Totals	54	$15,719,868	54	$15,582,500

Mr. MITCHELL. Thank you.

Could we hear from your other witnesses? Mr. Tom.

TESTIMONY OF RAY TOM, PRESIDENT, THE COPY FACTORY, INC.

Mr. TOM. Basically, I think I'm here to talk about two different things. One is my own experience with the program, which I feel is good, and then some comments I have from listening to other people.

I think my first comment in terms of my own experience is that I was asked to participate in the committee here to see what the effect is of the 502 and the 503 loan program, and for us I can state unequivocally that the programs work and they work very, very well. They have done well for us, and although I'm not insighted to know how it can be improved, I know in which areas it has helped us.

As I say that, I cannot say that I can speak with total assuredness as to the macro-economic scale of how the 502 and 503 loan programs work, but with our program I can speak with 100 percent accuracy.

We have done both the 502 loan program and a 503 financing. In both instances it was to grow and go into a larger space. We went from about 800 square feet to 4,000 square feet on a 502 for about $75,000; and then with the 503, from 4,000 to 28,000 square feet, so you can see a lot of difference there, and that was about $425,000 in loan money, indirect loan money.

As a result of that, I would say that the Copy Factory, which is the company I represent, which is a copying and printing service, has borrowed $500,000 in both direct and indirect loans from the SBA. Since 1976 when we began with absolute zero in sales, absolute zero in floor space, absolute zero in personnel, we have grown to $4 million in sales in 1984, and we produced over 100 new jobs in our business, and we have floor space encompassing over 28,000 square feet. We have an average annual growth rate over the last 9 years of 57 percent in sales each year, 85 percent in growth in personnel each year, 66 percent in floor space each year; so with the help of the $500,000 and the 502 and 503 loans, we have generated a business which in 9 years has returned back $1,148,000 in Federal, State, and local taxes and paid over $4,200,000 in payroll.

I think it's significant to note that the vast majority of the new jobs that we've created are for unskilled workers, which I think is very vital to the preservation of the urban areas. As land values go up, corporations move in and you get a lot of white collar type jobs, but they need skilled labor, so the guys like print shops and garment shops, et cetera, move outside the area, and then the inner city people who live there don't have any employment source, so I think 502 and 503 money makes this available for us to stay in there.

I know that as a business we couldn't have afforded the interest rates of conventional loans to finance our growth and stay in the San Francisco area and it was very important there.

I'd like to close my comments on the Copy Factory by saying at the risk of appearing prideful, I'd like to say on the record that I'm proud to be an American citizen and I'm proud of the free enter-

prise system and the way it works. I know it's not perfect, but it's worth keeping and improving.

A final note I have is that what any American wants, whether white, black, Asian or Indian, is an opportunity and I ask as you evaluate your future programs to keep that opportunity alive.

I think the 502 and 503 programs are worth expanding, worth improving. Small businesses are very, very vital. It provides a means through which the everyday American sees free enterprise work, and it provides him an opportunity for individual growth, self-expression, and economic freedom.

I confidently venture to say that the dollars you spend here are multiplied a hundredfold as compared to many other Government assistance programs and they will have an effect throughout the country for generations to come. That is my honest belief.

Mr. MITCHELL. Thank you. It's good to hear a success story. We in Washington have to battle all the time against those who see everything wrong with the programs, and your testimony shows, on the other hand, phenomenal growth in terms of taxes that you pay and so forth.

Mr. TOM. Mr. Mitchell, the second part of what I had was just some comments I jotted down.

To me, if you were asking a fellow like myself how the 502 and 503 program can reach more minorities, I would say the barrier they have, in my own opinion from a limited scope, is their awareness level.

I'm fairly well educated. I have a BA and I have an MBA, and I never really heard of any 502 or 503 program, and I went through all the business courses, so if I'm running around, fairly sophisticated, and not even knowing about it, I don't know what the average guy is doing.

I jotted down three ways I think awareness could be built up. I think you could get the LDC's to market to the minorities more, and that could be done through workshops, by building up their priority level.

I think once you make things more of a priority by bringing it to the attention of people involved, they think about it more often. In workshops, you could provide incentives to the LDC's, financial incentives or funding incentives if they place a portion of their loans with minority businesses.

As a last resort, you could make it a requirement, like the 8(a) program kind of is. I think it would be very helpful to promote 502 and 503 to local agencies and associations and minority businessmen. There are all kinds of associations of those, and if you employ people to go out and speak to these people and make them aware, I think that will help.

I think workshops for the bank loan officers in minority areas would be very, very efficient because several people have said here many bank loan officers don't know about it.

What you're doing by exposing them to the knowledge is to bring it up to a priority level, and they'll talk about it more.

My last thought is that—this is getting way, way back to the roots of it, but sometimes you have to start at the roots to solve a problem many generations later—you might want to think about

promoting 502 and 503 small business development, Small Business Administration development like school programs.

I know when I read textbooks, you just didn't hear about it, and yet so many business classes are taking place that if you can have people out there promoting with the publishers to get that type of information in the books, all these people are going to be reading about it and at least have some inkling that it exists.

Mr. MITCHELL. Thank you. Those are two very excellent recommendations, about bank officers and the schools. There is a tremendous emphasis now developing on business education in schools.

[Mr. Tom's prepared statement follows:]

PREPARED STATEMENT OF RAY TOM, PRESIDENT, THE COPY FACTORY, INC.

I was asked to participate in this panel to address the question of the importance and potential impact of the SBA's 502 and 503 loan programs.

I'm here to state unequivocally that your programs work. In fact, they are most likely some of the most efficient uses of government funds that I can think of.

I am told by experts that small business today constitutes one of the fastest growing sectors of the American economy. More importantly, the vast majority of new jobs in this country are created by small business expansion. While I cannot speak with full assuredness on the positive effects of the 502 and 503 loan programs on an macroeconomic level, I can speak with 100% accuracy as to my own experience. Take if you will the example of The Copy Factory, Inc. as a microcosm of the economics of government aid. Specifically, we have participated in both the SBA 502 and 503 programs to move into larger plant facilities on two separate occasions. Each loan was absolutely necessary to our growth, allowing us to obtain the needed funds to expand without incurring an interest obligation that would strangle us in mid-growth.

Do the 502 and 503 programs work and do they work efficiently? In sum total, The Copy Factory has borrowed $500,000 in direct and indirect loans from the SBA. Since 1976, we have started from absolute zero in sales, personnel, floor space and whatever other category you can think of to current 1984 sales over $4,000,000, creating over 100 new jobs and encompassing over 28,000 square feet of operating plant. The Copy Factory has averaged an annual growth rate over the last nine years of 57% in sales each year, 85% growth in personnel each year, and 66% in floor space. With the help of $500,000 in 502 and 503 loans, we have generated a business which in nine years has returned back $1,148,000 in Federal, State, and local taxes and paid over $4,200,000 in payroll.

It is significant to note that the 100 jobs created have meant employment to unskilled inner city residents, a population whose ecomomic well being is vital to the preservation of our urban areas. There is no question that high unemployment among the unskilled in our large cities becomes a cancer through which urban decay multiplies. Definitely, without SBA assistance, the high costs of city real estate could easily have necessitated our move outside the city.

At the risk of appearing trite, I would like to say on record that I'm proud to be an American. I'm proud of our free enterprise system; it's not perfect, but its worth keeping and improving.

What any American wants whether White, Black, Asian, or Indian is an opportunity. I ask you as you evaluate your future programs to keep that opportunity alive, to keep small business thriving. Small business is the core of the free enterprise system. It provides the means through which the everyday American sees free enterprise work first hand, and it provides the opportunity for the individual to seek self expression and economic freedom.

I confidently venture to say the dollars you spend here are multiplied a hundred fold and have an effect that is felt throughout the country and for generations to come.

Respectfully,

RAY TOM, PRESIDENT.
The Copy Factory, Inc.

Mr. MITCHELL. Before we hear from our next witnesses, I'm honored that our mayor has arrived. Everybody knows the mayor and I just wanted to publicly acknowledge you and thank you for

making these accommodations available to us and for the kindnesses your staff and others have shown to us.

We've been going since 9 o'clock. The room was filled and we're working down to the last panels, but I am indeed very grateful, Mayor Wilson, that you took some time from your busy schedule not only to provide all of this assistance to us, but also to physically come in.

Would you like to say a word?

TESTIMONY OF HON. LIONEL WILSON, MAYOR OF OAKLAND, CA

Mayor WILSON. Mr. Chairman, as mayor of this city, I am extremely pleased on behalf of the city to welcome you here, and we're very pleased that you saw fit to hold these hearings here in the city of Oakland.

I heard the gentleman who just spoke talk about awareness, and I think he's absolutely right. This is one of the most critical problems that we have, a lack of awareness and lack of communication with those who have needs for this type of program.

As you know, there are very few in this area who are utilizing these programs, but hopefully with hearings of this kind and with development of greater awareness, that minorities in particular can take better advantage of these programs than has been done in the past.

I think also one of the problems inherent, as I'm sure that you would agree, in so many programs of this kind is the bureaucratic redtape in which people get involved.

I remember 7½, almost 8 years ago, when I first became mayor and attended a mayors conference the primary issue among mayors was seeking to reduce the amount of bureaucratic redtape, the complexities of the many rules, many of which overlap each other, and no doubt I think that this is a factor that makes it difficult for some people even to become motivated to utilize a program that is for their own benefit.

I know that you are well aware of that, so again thank you for bringing the progam here to the city of Oakland.

Mr. MITCHELL. Thank you. We came here because in the bay area we have found the best record for minority business under the 503 program. It's not perfect, but it's three times above the national average, which means that somebody is doing something right.

Thank you very much, Mr. Mayor, for being here.

Mayor WILSON. Thank you, Mr. Chairman.

Mr. MITCHELL. Forgive me. The mayor is my friend and yours, too.

Could we hear from our next witness?

TESTIMONY OF IGNACIO PALOMAREZ, SR., SPACESONICS, INC.

Mr. PALOMAREZ. Thank you, Mr. Chairman, for giving us an opportunity to express ourselves.

We were talking a few minutes ago about this Small Business Administration's loans. We've been able to find this kind of loan, but I found this kind of SBA loan by accident.

I started my business 17 years ago and was much smaller, like everybody else who starts, with one man or two men or whatever,

and I've been growing little by little. Since then, I've been looking for this kind of opportunity because I did hear that minority people have more opportunity than other people. I tried to find this kind of opportunity but I never did.

So my business started to grow. I started in 1967 with two people and 2,000 square feet. After that, 5 years later, I moved to a large facility which was 4,000 square feet. I spent another 5 years over there and at that time I began looking for—I had been hearing about the Small Business Administration—for another kind of facility and I tried.

Maybe because of my lack of communication or the language, I never was able to find out the right source. Finally, I kept on going and struggling as any business.

After I moved into an area with 9,000 square feet, I filled it up. I thought that was big enough for me, but in no time, I filled it up and the business kept growing.

My business is sheet metal. I do business for the Silicon Valley industries, and am well known for producing its demanding necessities, so I've been growing little by little.

Around a couple of years ago, I filled up this space so I had to look for another building; but the building which I was looking for—I was into 9,000 square feet so I figured out I needed another 4,000 or 15,000 square feet total—was too expensive. I wanted to buy but I couldn't afford it because when you're in business you're struggling every day. You don't have much left. You put all your eggs in one basket.

I found two or three buildings which were out of my reach. For 2 years I had been looking for this building because, again, I can find nothing from the Government to help me, or maybe I never did enough to look for it. It's just that I always hear and hear and hear, and I tried to find out.

I went to the banks and the banks, they don't deal with this kind of deal. They don't give more information, so that's the end of it, so I keep on struggling.

So finally I decided to look for one of those persons who offer the service to find money, and two or three persons called me and said, Mr. Palomarez, if you need money we're able to help you. One time we got a call from this company Anhalt Associates, and they offer to help us find a package, money. Well, we accepted. We accepted because at that time I needed to increase my business and to go to the top of the technology and buy another machine which costs around $185,000, so I figured now to borrow money, consolidate all my bills, and with the little bit left, to buy this new equipment. This way I'm going to put all my bills in one package.

So this man came over and offered me this service, and I explained what I wanted, the money. OK, fine, so he did it. He tried to make a package for $200,000, but then a broker came over and offered me a building which was a nice building and less than the regular market.

So I went over to see this building, and the building was beautiful, nice, 25,000 square feet. That's out of my reach but the price was tentative and very attractive, so I decided yes, I'm going to try to buy this building if I am able to raise enough money.

So I called this company—no, I called this lender in and I explained the situation and he said, OK, fine, there's no problem, let's change this package from $200,000, change it to $1 million or $900,000, but the problem is the SBA loans only allow $500,000, and we have to find the rest of the money somewhere else. Fine, so long as you're going to do it. He charged me $900,000 for this kind of package.

But what we don't know—well, it's good. I mean if you're able to find me the money, fine, so we kept on going that way.

Finally, we find out that these people do not do their job right, and were not qualified to do it. They let us in but when we're going to close the deal with the sellers, we find out that we don't have anything, no money. They approached different houses, different banks, and at the bank they don't know anything about these SBA loans. We were in trouble.

We explained our situation to our friends, and one of the friends had already had experience with the Small Business Administration, so he said why don't you go with Barbara Morrison, and she can do this kind of package for you, and she is good, excellent.

Well, we don't have anything to lose, so here we go. We pick up the phone and give a call, and we explained the situation and that we're coming too late with around 3 days to close the deal.

When she heard from us, she said, "Well, I'm sorry but you have to go in a different direction; we want to try to raise this money for you and so on. So finally she did it. She came through.

That's the way we found this Small Business Administration because really there are not many places to go to look. I want to apply for a loan. I've got to go to government and the government office and say, look, can you give me information on where I can get money for this minority program. There's no such thing.

It is an accident I found her. She did pretty well, and 3 months later we had this building. I've gone from 2 employees when I was in my 9,000 square building to 32 employees and myself when I moved into this new building which is 25,000 square feet, thanks to your program and Barbara.

Since I moved to this 25,000 square feet, without forcing myself, I've grown from $110,000 a month to $175,000 a month sales, gross sales, and I employ another 32 to 45 employees, up 40 percent without forcing.

Now I say again thanks to your service; through this program I got this building to grow, and I never thought that with more money I would grow this much; I only did it because I had to move.

Now since I'm in this new building I still have left around 7,000 square feet which I am able to use. I'm farming out painting now, and I'm looking for more money to put the paint business inside under the same roof which will give me the opportunity to grow even more. My clientele would come over and see the facilities all under one roof and I believe my business would increase.

Mr. MITCHELL. Looks like you're going to be going back to Ms. Morrison again, doesn't it?

Mr. PALOMAREZ. Well, it's like business always.

Mr. MITCHELL. You expect to grow.

Mr. PALOMAREZ. No, I don't.

Mr. MITCHELL. But you are growing.

Mr. PALOMAREZ. I'm growing, yes. That is the thing—I'm growing without forcing myself, but I have reached the $500,000 limit and am not able to borrow any more. That is the reason why I came here—to see if it is possible to extend, to enlarge this kind of assistance. Otherwise if I don't get more money from you or from somewhere, I still have to keep struggling. I think like everybody said, money makes more money and to make more money I have to borrow more money. I don't have it so I have to stay where I'm at. I don't know how the situation will turn out, but I try to survive.

Mr. MITCHELL. Let me just tell you there's no question but that you're going to survive and continue to grow. That's evident.

I don't know whether you were here earlier today when I talked about trying to introduce some legislation to increase the limit, or at least amend it so we could use 7(a) money in connection with the 503 program.

I can't guarantee that that will happen, but both you and Mr. Tom have indicated to me that no matter what the Congress fails to do, you are going to succeed and I congratulate you both very much and I thank you for taking the time to be with us today.

Thank you very, very much.

Our last panel is Ms. Patricia Noyes—and I appreciate your waiting—Mr. Art Brenes, Mr. Jim Martin, and Mr. Bob Fowler.

Thank you so very much for your patience. When we go out on a field hearing like this, we try to accommodate as many people as possible. I know perhaps you're a little hungry but don't take my flan. Thank you for waiting, Ms. Noyes.

TESTIMONY OF PATRICIA NOYES, PITTSBURG ECONOMIC AND HOUSING DEVELOPMENT CORP. OF PITTSBURG, CA

Ms. NOYES. My name is Pat Noyes and I'm with the Pittsburg Economic and Housing Development Corp. of Pittsburg, CA.

Mr. Brenes from High Vacuum Apparatus in Hayward called me late yesterday and informed me that he had clients from overseas due in today and could not make it.

Mr. Martin from Marriott Inns was supposed to be here and has not made it either, and Mr. Fowler from Arby's of Sacramento will testify.

The assistant city manager from Pittsburg, Mary Erbez, explained that the Pittsburg Economic and Housing Development Corporation is a product of the Model Cities Program, and we were formed through the city back in 1971. We have not been funded under the city for a number of years now but we remain active in economic development in the city of Pittsburg.

Our board of directors is a 51-percent minority board. We are very proud of the fact that 95 percent of the board has been serving, and is continuing to serve, since the organization was formed back in 1971.

We have an interlocking board of directors. We have the same board and staff for three of our, I guess you would say, subsidiary type organizations that are formed under PEHDC.

The Los Medanos Fund is our CDC and LDC, and we have been making 502 loans since 1973 and 503 loans since 1981.

I wanted to explain what we do in addition to SBA programs because, practically speaking, our participation in the SBA programs is probably 25 percent of all the other things we do in economic development.

Our consulting organization, Pacific Community Services, is involved in housing development in east Contra Costa County and in the city of Pittsburg.

We are also a HUD certified housing counseling agency. We do tenant-landlord default and delinquency counseling and fair housing, and we have for the last 10 years.

We have developed a senior citizen housing complexes, in addition to other kinds of housing rehab programs in the city of Pittsburg.

Under Pacific Community Services, outside the city of Pittsburg we do economic development consulting and in that capacity we have a contract with the State of California in which we are now in our seventh year. We provide technical assistance to cities and counties throughout the State of California in developing economic development program strategies, and that usually involves industrial development and attraction, downtown revitalization, and establishing revolving loan programs. In the last 6 years, we have assisted in the formation of 41 LDC's and CDC's throughout the State.

When we do that, we take part in the initial phases of formation, in the application process, in training staff, in screening the first applicants and, in some cases informally or on a contractual basis later on, we assist in loan packaging for the LDC's and CDC's.

In that capacity, we emphasize serving the minority business sectors of the community and always advise that members of the board of directors be minorities as well as other representatives of the community.

In our services to the State, we have cosponsored and conducted several seminars and conferences that have to do with public-private financing programs, and we also have several local contracts in addition to our State contract where we provide assistance to the Contra Costa County in administering two revolving loan programs that compliment the SBA programs in providing the 10-percent injection, and both of those revolving loan programs do have a first source employment agreement attached to them.

The oldest one of those programs is 2 years old right now.

We also are active in the private industry council through the JTPA.

With respect to our case load for SBA financing, we have done fifteen 503 projects that have provided 400 jobs and——

Mr. MITCHELL. Since when? What date?

Ms. NOYES. Since 1981, and I would say three of those are minority. The debenture portion is approximately $4 million. The total project size of those 15 is $10 million. Two of those are in the city of Pittsburg.

Under 502, we have done thirty 502 loans which initially, at various phases of funding, provided 120 jobs and constituted about $6 million in projects; and 8 of those loans are to minority businesses.

We have also been extremely active in the 7(a) program in the city of Pittsburg, and we have done 44 loans which amounts to

about one business loan per thousand of the population, and 35 percent of those are to minority businesses.

In terms of dealing with the SBA and marketing their programs, we, like the other CDC's in the bay area, are very active in marketing the entire program to all the business communities. We are regional and we operate in the nine bay area counties as far as 503 is concerned, so we are in direct contact with cities and counties, with chambers of commerce, trade associations, and the banks.

In those problem areas that some of our clients may be encountering, and we find this true especially regarding minority business, where they need some technical assistance in managing or in setting up the financing or in making their business plan or marketing studies, we have access to a referral system of business services that provide them with that assistance.

We had a contract with the Private Industry Council last year where we planned and developed and implemented a business resource center in the county which provides counseling and library services and seminars to new and expanding businesses within Contra Costa County, and we patterned that business resource center after the SBA small business development centers that have been used elsewhere and are just beginning to be used again in California.

We also, under the State contract, have over the previous 2 years become involved in helping the State revise its regulations for the community development block grant program, the set aside for economic development. We also helped structure the deals throughout the nine entitlement cities in the State and then did the financial feasibility analysis of those applications, so we have a heavy background in finance that we've used in areas in addition to SBA financing.

As far as the whole complex issue of how minority business is serviced in SBA, we find in general—I would have to repeat what has already been said here—that the 503 program seems to be most suitably designed for larger projects, in part because of the job criteria, in part because the SBA financing leverages private financing so on the average many of our 503 projects were $1 million or more.

Our 502 projects usually average between $200,000 and $300,000 and those are perfectly respectable 503 projects except they do not have the job criteria met.

Mr. Baird and Ms. Jordan were accurate in that the emphasis in SBA policy in California and specifically in San Francisco has been that the job criteria has to be met for 503, so many of the projects that would do very well on the financial aspects of the program we have had to put into the 502 program just because the job criteria has not been met.

I want to talk a little bit about the banking situation. When Ms. Ayers testified, I wanted to emphasize that I feel personally and in our CDC's experience with the banks that Wells Fargo is probably the most enlightened as far as how to market itself, its own services, its programs, public funding programs in general, and SBA specifically, to the local banking chapters.

We find that in our marketing efforts we have to spend a tremendous amount of time educating local branches of all banks on

what SBA is all about and there is a lot of uncertainty—the banks have been deregulated and they are in a state of flux.

Most of the real estate, commercial and business loans were not approved at the local level. However, local banks are the ones receiving the packages. They have to go through another set of screening. They have to be sent to regional offices.

We find that many times there is a gap of information, a gap of policy, if you will, where the local banks are reluctant to get involved with SBA at all, and they have to be educated from us and from their own regional offices that SBA is an OK program to get involved with.

They are more receptive to 502 than to 503. Some of the banks don't even want to use 503. Even though they have an advantage in that they've got 50 percent exposure with the first deed of trust, they are completely exposed; there is no guarantee there; and they may do a much tougher credit analysis on a project, minority or not, because they have that exposure and they will say, you know, I'm really much more comfortable with 502.

They also have the guarantee to sell off on the secondary market, and the savings and loans are getting more interested in SBA 502 because they have that avenue.

I would say that we have used Wells Fargo and Grace Ayers specifically many times in conducting bankers' forums. I do believe that the statement you made earlier that banks listen to banks is very accurate.

We can talk a lot and do a lot of convincing, but when a regional representative from a bank talks to a local bank and tells them that SBA is a great program and they should use it, then they do listen.

So we have used the regional representatives a lot in educating the local branches and I think that has to be always done.

I think Ms. Morrison is right, that the majority of marketing is most effectively done through the CDC and I think that should be one of the responsibilities charged with in being certified, that they be extremely active in marketing accurately the SBA programs. They have to be aware of the fact that the banks know something about it, they don't know all about it, and they always have to be reeducated because of the turnover and because of the levels of policymaking decisions in their own banking industry.

Mr. MITCHELL. Thank you. Thanks for your patience, also.

TESTIMONY OF ROBERT FOWLER, ATTORNEY, OWNER, ARBY'S ROAST BEEF, SACRAMENTO, CA

Mr. FOWLER. My name is Robert Fowler, and I would like to thank Mr. Mitchell and Mr. Hayes who was here but had to leave, Mr. Sobota of the staff, and I do not know the young lady who is very aptly managing the recording over there, but I think she should get the trophy for patience. She's been here throughout the entire thing.

As I said, my name is Robert Fowler, and I am an attorney with approximately 11 years of practice experience behind me or underneath me, but that's not what brings me to this table.

I am here because I own an Arby's Roast Beef fast food franchise in Sacramento, and I was able to do that and will be opening that first store some time in the next 3 to 7 days.

It was with pretty strong trauma that I took myself away from the umbilical to come down and testify in front of this committee, but in some law classes that I taught, where I was originally from in Ohio, I saw Mr. Mitchell's name in many of the committee and legislative history reports in *Fullilove* v. *Klutznick*, and it is there that I gained a good deal of respect for you and what you did in terms of the minority set aside, and I thought this would be an appropriate forum for me to express some of my war stories and opinions.

In any event, right now I have the only Arby's franchise in Sacramento County. Sacramento County has 281,000 people—excuse me—Sacramento City has 281,000 people and the county has 1.1 million. It has experienced real growth of about 3 percent since the last census and it has experienced a real growth in disposable per capita income of about $2,900, up from $14,000 to almost $16,000.

It is a booming area and that is one of the reasons that I chose to locate there.

In terms of my ability to go there, I would like to address my remarks to four areas—the banks, the SBA, the CDC's, and Arby's itself. More appropriately, Arby's as a generic for franchisor.

There are five objectives that I would like to have come across to this committee. No. 1 is that the SBA guaranteed limits not be retained but be raised above their former level.

My suggestion would be a limit for all programs combined of $2 million. I happen to be very fortunate. I was told by the people at the SBA and the local CDC that I received the last combination 7(a)-502 loan before the mistake was discovered in SBA regs.

My package consists of approximately $632,000. The total package is $717,000, a combination 502 loan and a combination 7(a) loan, and I was informed that we got that in at 2 o'clock in the afternoon when the memo said the cutoff was at 4 p.m. on that same day. I guarantee you I'm not making that up. I was told that.

I actually had to race from San Francisco to the Sacramento SBA office to deliver my package so it would be time stamped in and I wouldn't be cut off, and believe me that 7(a), which I just received the proceeds from in the past 8 to 10 days for working capital purposes, has really come in handy right now. The price of roast beef has gone up since I originally filed and am now trying to buy it.

My suggestion would be that those SBA guaranteed limits be taken up to a total of $2 million. I emphasize this under 502 and 7(a). I have not had experience with 503.

I do know that I shopped 23 banks and approximately 3 S&L's and was turned down, and I do not think that my credentials or my resumé were woefully lacking, but it was quite often that I heard you may be a great lawyer and the best since sliced bread, but that doesn't mean you're a businessman; and then that was coupled up with, am I responsible, what about Arby's, they have 1,400 stores nationwide, they're owned by Royal Crown Cola, and it is basically a money machine.

Well, that may be true, but it is a restaurant and restaurants are here today, gone tomorrow, plus it is a specialized building, and if you go belly-up we cannot, we as a bank, cannot easily turn that building over and we cannot minimize our loss.

Through my own experience in representing Arby's and other fast food companies, I just found that not to be the case. Those buildings could be turned into used car lots, day care centers, flower shops, and many other things. Real estate is real estate, and it will sell.

In that area, speaking about some of the turndowns, my point is I was finally able to find an S&L outside of Sacramento that would provide me with funding under 502 and 7(a).

To buttress some remarks that were made by Ms. Noyes, the reason for that was the guarantee. I asked very specific questions, why did you accept me? Well, we like you, you've got a good project and Arby's is there, too. I know that's nice but I don't know why. Well, we can sell that in the secondary market for anywhere from a 2- to 5-percent increase.

I might add that this committee is probably aware that my particular financing was not done in the traditional two stages of a construction loan and a take-out. The S&L that I'm speaking about would only do it as one package to enhance the marketability with the guarantee in the secondary market.

Hence, this is why I say that 502 is a very viable loan for a person from my perspective who is looking at a franchise which will be a high cash flow business but is also a high cash startup business in terms of equipment, and land, and building.

To come full circle back, those are some of the reasons why I suggested the SBA guarantee or the SBA limits, both guarantee and total program, should be raised to $2 million.

The final item on that increase, one of the things that I perceive is going to happen to me is that when I get down the road with some hopefully very good P&L's in the next 6 months, I'm going to need some additional financing.

SBA will probably chuckle at me. They'll not only say you maxed the limit, but you beat the deadline when you squeezed in with that companion loan program. So I think I will be in the paradoxical good news/bad news position of having a very good franchise and an excellent market that will have strong P&L's, and I will have maxed out on nontraditional financial assistance and then I will be hearing, "Come back in a year or two when you've got a track record," et cetera, et cetera, just at the time when I need to get some additional money to make the leap from one store to three stores, which is what the financial community expects.

I'm constantly barraged with questions of when are you going to open your next two stores, three stores. It's not one store but in franchising it's two or three stores.

Enough on my point number one. My point number two, it has been recently brought to my attention, and I do not know if this is as most rumors—10 percent truth, 80 percent wish, and the rest a fib—that there seems to be proposals or pending regulations afoot to make restaurants and professionals such as doctors and lawyers nonviable candidates for SBA guarantees and SBA loans.

If my information is in error there, I would just strike it but——

Mr. MITCHELL. There is such a plan afoot.

Mr. FOWLER. Well, the only thing that I can say or the strongest point that I can make there is that Wendy's, McDonald's, Arby's, Goodyear Tire Stores, Firestone Tire Stores, Foster Freeze, TGIF Friday; those are all franchises, Toughie Muffler, Skippy, those are all franchises.

Now I fail to see the difference between a Toughie Muffler, and an Arby's, or a Mr. Clean car garage, and a McDonald's.

I would ask that this committee take very strong steps to ensure that restaurants are not removed from the funding eligibility of SBA.

Mr. MITCHELL. I think, and I don't want to delay things, one of the committees of the Congress had some oversight hearings on SBA loans and they were disturbed by what appeared to be a disproportionate number of loans going for franchised businesses.

They have floated the idea of going whole-hog in the wrong direction, to eliminate them altogether. There is no such regulation in writing now and no such regulation has been posted. I'm almost sure that we will resist such a regulation, but in my opinion it was an overreaction to the oversight hearings conducted by the Government Operations Committee.

Mr. FOWLER. My scare was shored up by my recollection of about a year and a half ago when that in fact did happen concerning eligibility for industrial revenue bonds for restaurants, as you know, and I thought I saw the same mean sword coming out again.

In any event, this committee has said it is well aware of that and would most likely oppose it.

My third point would be that in terms of the SBA, and I realize that the committee is not a personnel agency, but that the SBA staff be—to use an overused word—sensitized and retrained to the fact that minorities exist under whatever definition and that they should be encouraged.

My experience with the SBA, both as a lawyer representing clients in Cleveland and here and as a client myself, was one of polite diffidence, aggressive neutrality.

I did not expect handholding. I did not expect coddling. I did not expect bells and whistles to go off when I came to the door and they saw that I was a black male at all, but if I raised the question, Do you have programs available for minorities? Yes we do. Well, what are they? Well, they are the 8(a) program and several others.

I mean I was extruding information, so psychologically I shifted gears and put on my everybody else hat and things seemed to flow.

There was a consciousness or there was a sense of apprehension with the SBA personnel that I dealt with. I am not saying impolite and I am not saying rude and I am not saying hostile, but they were ginger about it.

The MITCHELL. You are saying not forthcoming.

Mr. FOWLER. Not forthcoming, that is what I'm saying.

On that same topic, going to Ms. Noyes' area just a little bit, with all the banks that I shopped and went to myself and some that I went to with her colleagues after a package was prepared, the banks were under great misimpressions about SBA 502's and SBA 7(a)'s and what was what and the details.

A couple of phone calls were made by a person who is no longer with the SBA, not because of the phone call but he left separately, to answer some questions to the S&L that actually funded my package. Those two phone calls cleared away the clouds and basically took away the S&L's fear that they were going to be wrapped up in some sort of affirmative action gridlock where, if they provided me with a loan, there was going to be a line down the street of Hispanics, and black people, and oriental people 9 miles long and that they were locked in.

My point is that while the SBA might not have person power to get out and market, it certainly would help things if they were given some sort of a charge to conduct seminars in conjunction with CDC's with the bankers because SBA exists in the loan officers' minds, I'm convinced, 80 percent rumor and maybe 10- to 15-percent fact and they really need to hear, so to speak, from the horse's mouth.

My next point would be, and this one I realize is somewhat controversial, but in the line and the spirit of *Fullilove* v. *Klutznik*, that this committee write legislation to set up a set-aside program with particular emphasis on the 502 and the 7(a), the usual system of the set-aside program representing a percentage of the total appropriation or a percentage of total personal service contracts, some traditional formula like that.

I was turned down by one CDC for help because they had too many restaurants in their portfolio, and I went to another nontraditional money lender, not a bank, not an S&L. They are actually—well, I don't think I'll be committing any slander or anything like that—their name is the Money Store, and I was turned down by them because they felt that there were too many restaurants in the Sacramento area. Their attitude was that they would like to go with it but they didn't feel SBA would go with the guarantee because overall there were too many restaurants.

I'm speaking from the point of a set-aside where you might have those same criteria, you couldn't have every one a restaurant, but you would certainly have another alternative avenue available for minorities, Asians, blacks, Hispanics, or whatever definition that you would like to utilize.

My point is that I think there is a place for a set-aside program and I think constitutionally the obstacles have been pretty much cleared away, and I think also in very strong candor that is a great fear of the SBA and the banks, and that's that gridlock that they are worried about; but nonetheless I think for there to be the growth and the retention of minority business, that would be a definite aid.

My last point that I would direct to the committee's attention would be that it consider means and methods to have the SBA utilize its guarantee as a stick and a carrot to the franchisor.

My franchise is with Arby's. Arby's is large. They're in the big leagues, but they're not the big, big such as McDonald's or Burger King.

The SBA currently requires that the franchisor sign a letter indicating that should a franchisee, let's say, declare chapter 11 or become otherwise financially insolvent, that they, the SBA, can step in and so to speak have a last chance to control the situation.

They could take control of the assets and make certain that the franchisor is not playing games with the franchisee, forcing him out of business, or vice versa, they can hold off the franchisee and see if perhaps there are other ways that this thing can be salvaged.

At least that's the way I read the intent of the letter that's in my contract.

Similarly, with all the banks that I went to, without exception, they all said, well, the usual things I've said about restaurants and moving away in the night and that sort of thing, but they all asked if Arby's would sign as a guarantor or a surety—would they put their name on the bottom line of the note—and as with most franchisors the position was no, and that was even though I had a very good relationship with the company, formerly having been their labor counsel.

I think that akin to affirmative action, if there was legislation passed so that, particularly where there were minority entrepreneurs, SBA were given the leverage to insist on such participation by the franchisor, I think that would go a long way to expanding franchise business opportunities and the retention factor.

Arby's, McDonald's, Burger King are in the business of sales of franchises. They are not in the business of sales of franchises that fail. If they have their name on that bottom line, the assistance which they offer will be doubled, quadrupled, maybe even quintupled. They'll make sure that it works.

That is not to say, and I had best make this very clear, that Arby's has not been of great assistance to me. They have met all their commitments and they have come through. Oh, we spat about this, that, and the other; but I think perhaps I had a little bit of an advantage, given my legal background. But someone who is in a minority status who doesn't have that advantage, given the fact that I was asked that by bank after bank after bank, I know it would be what the bankers want.

It would be both hands full of security, an SBA guarantee on the right and a McDonald's guarantee on the left. The meanest chairman of the board would say, well, I think that loan might be secured.

Those are my points. I would go back and recap very briefly on a couple of specific items that I think may be of interest to the committee.

One is that in terms of the banks being interested, and this is more in line of a suggestion than a recommendation, the points that I have had to pay, the points to the S&L, the points to the SBA, the points to the lender, it seemed to me to make at least reasonable logic that there should be a premium offered to a bank that would participate in an SBA venture, perhaps a point or a point and a half, that could come from the SBA and would be charged back to and amortized over *x* number of years to the borrower, such as myself.

In tandem with that, I would suggest that the committee give consideration to an additional premium of maybe a point or a point and a half that would be paid 6, 8 months or a year down the line to the bank. One of the things that I have come across in making decisions—I didn't have that many to choose from, but I did have two once all the smoke was done—was the question of how much

followup I was going to get in terms of financial services for my business, such as a payroll service, such as initial bookkeeping setup, such as a line of credit for short-term working capital, 6-month or 90-day note.

I think an additional point properly structured or a point and a half would give a bank a real inducement to further participate in SBA loans.

I think my final point, and the one I would like to close on, would be the CDC's. I've talked about SBA. I've talked about Arby's, and I believe I've talked about the banks.

In terms of CDC's, my initial experience, and I will not name names, in Sacramento was atrocious. There was no followup. The individual involved attempted to steer me into, for want of better terms, a high unemployment white ghetto area, where theft and breakage abounded. The carrot was that he could get me some kind of magical loan rate and I just left and walked away.

As a result of that, a bank that did turn me down, a large bank, one of the big ones here, referred me to Los Medanos for Pacific Housing and Economic Development, and although I did not work with Ms. Noyes there, I worked with a colleague of hers, a gentleman by the name of Egon Hoffman, and I found them, Mr. Hoffman and the CDC to be receptive, found them to be knowledgeable of SBA and, most important of all, I found them to have tenacity and followthrough—tenacity in that the turndowns kept coming in even after they did their packaging.

They had worked their magic and shaken their bones over it and said now it's going to fly. Well, it sputtered and choked and kind of wobbled on the runway, and it didn't take off right away, but they stuck with it and they stuck with me and eventually I was able to receive what I think was an excellent package.

That was because, I repeat, the CDC here was receptive, they were knowledgeable, and I might add they had a very subtle but positive outreach attitude to me as a minority person. There was nothing condescending. There was nothing of the reverse, haughty. There was nothing of the syrupy sympathy. It was business as business should be, but it was understood that it is a particular kind of business that we have to deal with in a particular way.

I might also add, finally, this on the CDC—I'm not having a love affair with them but it's working out quite well. The lender with whom I am now mated had just hired a person in-house on strictly a commission basis to do SBA loans. That person was in-house with my lender to do nothing but SBA loans. He had sold this small S&L on his ability to do those loans, and he was the only person in that entire S&L that understood SBA loans, and he didn't even understand 502's. He understood 503's and 7(a)'s.

Thanks to Ms. Noyes' colleague, Mr. Hoffman, getting together with this person at the lender, the knowledge tree blossomed and I was the lucky recipient or fortunate recipient, whatever way you want to call it.

I might add to all of this I have lived in California now since August 19. I did most of this and all my bank turndowns by telephone and with airplane flights and everything else, so I had those additional odds against me. We all have our quasi Horatio Alger story, and I'm hoping mine turns out. The first part is looking

pretty good, but at least I can afford bootstraps. I don't know beyond that.

With those remarks, I would conclude my comments. I would reemphasize my original point that if there is any thought that this committee comes across and it has any input or impact on elimination of SBA eligibility for restaurants, please stop it. Also, take whatever steps you can take to increase the SBA 502 and 7(a) and 503 ceilings to $2 million. I think that would be quite positive, and in terms of education and not restructuring, I would emphasize education and outreach by SBA.

I think perhaps the strongest point with the longest term effect would be to have participation by franchisors because franchising is growing like the proverbial bunny rabbit having little ones. It is just leaping.

Thank you.

Mr. MITCHELL. Thank you very much, Attorney Fowler. I have eight very hard recommendations and they were all very good recommendations, and that's one of the benefits from having a hearing like this where you get input in terms of specific recommendations.

Obviously there is no way I can guarantee that any or all of them will be implemented, but certainly this must constitute the work of the committee to look at recommendations such as you've made and I guarantee you that we will.

Thank you both very much, and thank you for being so patient.

We will now go to Mr. Jose Amaro who has sat for many long hours waiting for us to get to him and we are grateful to you.

TESTIMONY OF JOSEPH J. AMARO, PRESIDENT, SAN FRANCISCO BUSINESS LOCAL DEVELOPMENT CORP.

Mr. AMARO. Mr. Chairman, I am sitting here today as the president of the San Francisco Business Local Development Corp. in San Francisco, but also as a minority businessman and as a management consultant who specializes in small businesses.

I have dealt with small businesses for the past 15 years in and around the San Francisco bay area. I have also dealt with businesses in the Southwest and Texas, back East, some in the Washington, DC, area, New York, Massachusetts, and Connecticut.

In reviewing the experience that we've had in our LDC, we've come up with some information. We're going to be addressing two questions.

No. 1 is why hasn't the 503 program been more accessible to minority businesses, and No. 2 is why is the San Francisco bay area doing better compared to the rest of the country?

Let me keep my comments very brief. Basically, on the first question, accessibility of 503 program, we feel there are three main reasons why it's not as accessible to minorities, and all these reasons have to do with the way the program is structured.

No. 1 is the minimum debenture size. As you know, the 503 program calls for a minimum debenture size of $100,000. This in turn means that the program itself, the project itself, has to be at least $250,000 with the bank participation.

Now breaking this down, it means that a note at 13 percent over 25 years costs the business $34,000 a year. With a coverage ratio of 1.25, which is generally what the banks want around here, that translates to a coverage of $42,500 annually for the business.

Now our research shows that according to the 1977 census of minority businesses, 85 percent of the minority firms had receipts of $125,000 or less, 85 percent.

What this means is with a coverage ratio of $42,500 we are eliminating 85 percent of the minority businesses right there; the regulations themselves are disqualifying minorities.

No. 2, and a lot of people have talked about that through the entire hearing, has to do with the minimum employment impact, the $15,000 for one job created or retained. I'm not going to go too much into that because everyone has talked about that every time they have come up here and it's a good objection.

What I will say is taking that $250,000 minimum project size again that we talked about under the minimum debenture size, that means you've got to have 6.67 jobs created or retained, and usually they have to be created.

It is pretty hard to convince the bank or the SBA that you're going to retain the jobs. You have to convince them that if you're not allowed to claim them as retained, you're going to go out of business and so therefore they're retained.

What this means is, going back again to the census of minority businesses that was conducted in 1977, 90 percent of the minority businesses had fewer than five employees and the majority of this 90 percent were small retail businesses and restaurants.

Again, they are the kinds of jobs where $15,000 isn't going to increase job creation in these kinds of businesses. They are mostly owned by family groups, so that if you are able to buy your own building so that you can have your retail business in there, it doesn't necessarily mean you are going to be able to hire additional help to run that business.

Same thing with a restaurant. The $15,000, there is no direct correlation between the amount of the loan, the increase in the size of the business and the No. of jobs that are created because of the nature of the types of businesses that minorities are in.

No. 3 has to do with something I don't know is true across the country, but it's more localized here in the San Francisco bay area and particularly in San Francisco, and that is the SBA regulation restricting development company assistance to a commercial structure only.

Now in San Francisco, the majority of the property is multifunction buildings. You have commercial on the first floor and then you have residential zoning on top. These structures are disqualified from the 503 program. I've had this come up time and time again with clients who come to our LDC—they either have a restaurant or they have a small business in San Francisco, they want to purchase the building but two-thirds of it is residential, so it is disqualified.

Now as to why San Francisco is doing better than the rest of the country on minority participation in the 503 program, we have some thoughts on that. Part of it has to do with the makeup of the San Francisco Bay area and San Francisco in particular. Forty to

sixty percent of the population in San Francisco is composed of minorities, ethnic minorities. The characteristics of these ethnic minorities are also different from the rest of the country. As an example, the Hispanic population in the San Francisco Bay area as a rule is younger than the Hispanic population in other parts of the country. It has a higher educational level than other parts of the country. It has a greater number of college graduates and, accordingly, a larger percentage of white-collar workers and professionals than Hispanics in other parts of the country.

Looking at the Asian community, in San Francisco the Asian population is 25 percent. The Asian population in the rest of the Nation is less than 1 percent.

The Asian population in San Francisco owns 60 percent of all the small businesses in the city. Culturally, they are geared toward owning land. That's a very desirable, very strong cultural trait. They want to own the land they live on, the land they work on, and so therefore they look for ways to own the land and to participate in these kinds of programs.

That might account for some of the reasons why the No.s are higher in our area than they are in other parts of the country. Perhaps another strong reason is that the ethnic minority population in San Francisco also has a large percentage of political refugees, immigrants who were fleeing from another country because of revolution, political takeover, or what have you.

Personally, I've dealt with lots of clients from Nicaragua, from El Salvador, from Laos and Cambodia, who have come into San Francisco.

The first wave, the ones who leave when you hear of the revolutions, they are the upper crust, the cream of the crop. They're the ones who ran the businesses. They're the ones who ran government. They're the ones who have the education. They're the ones who owned the land, who had the money. They come here and they have all these resources available to them and the first thing they do is try to buy some real estate and start their own business, educate their children, hire their relatives who are the second wave.

Mr. MITCHELL. Quite comparable to Miami where the Cubans who came in first represented the professionals, the cream of the crop, and they have fared well in Miami.

Mr. AMARO. Exactly, and this brings up another point that was brought up many times throughout the testimony today, concerning the movement to disqualify restaurants and professional organizations or professional corporations, attorneys, or what have you, from participating in some of these programs. That's the way, for want of a better term, our native Americans who are not naturalized, the blacks, the Hispanics who have been here for at least 50 years, culturally and sociologically speaking, that's the way they build their middle class, we build our middle class through education, through working up through the ranks by forming your professional organization and that in turn generates jobs. You buy the real estate, you purchase your building and your business and you move up.

You don't have the heritage that the granddaddy who was a millionaire in another country gives you that opportunity, so by eliminating those kinds of professional organizations and professional

corporations, I think you would be doing a great detriment to the program in helping minorities.

Finally, my last point is in terms of San Francisco. The entire area—San Francisco and Oakland in particular—have special programs that support and nurture small businesses. There are revolving loan funds that work in conjunction with the 503 program, so that we're not looking at just the bank participation and the SBA participation, but rather the city participates also through their revolving loan fund.

They also make available loan packaging assistance, procurement assistance, and technical assistance, both in putting the package together and in followup after the business has gotten their funds and is in operation if they run into problems later on. Sometimes the revolving loan fund can also be used as a small working capital loan.

Basically those are the comments I wanted to make for the testimony.

Mr. MITCHELL. And they are very, very good comments.

I must say that apart from the heavier concentration of minorities and the demographic factors associated with that concentration of minorities in this area, I am pleased to note that other cities are beginning to start local initiatives, starting their own revolving loan funds and other programs to be more supportive of State and Federal programs.

It was just excellent testimony and I appreciate it very much. Can you provide us with a copy of that testimony?

Mr. AMARO. Yes.

[Mr. Amaro's prepared statement follows:]

PREPARED STATEMENT OF JOSEPH J. AMARO, PRESIDENT, SAN FRANCISCO BUSINESS LOCAL DEVELOPMENT CORP.

As President of the San Francisco Business Local Development Corporation (SFBLDC), a minority businessman, and a management consultant to small business, I would like to address two major questions: A. Why hasn't the 503 program been more accessible to minority small businessmen? B. Why is the San Francisco Bay Area doing better compared to the rest of the country?

A. *Accessibility of the 503 program to minority business.*—There are several major reasons why the 503 program is inaccessible to minority businessmen, and these reasons have to do with 503 program regulations.

1. MINIMUM DEBENTURE SIZE

Regulations under the 503 program call for a minimum debenture size of $100,000. This in turn dictates that the minimum project amount be $250,000. Assuming an overall interest rate of 13% for 25 years, the annual debt service on such a project would be $34,000. In qualifying, a small business would need to come up with a coverage ratio (current assets/current liabilities) of 1.25, which translates into $42,500 annually.

According to the 1977 Census of Minority Business, 85 percent of the minority firms had receipts of $125,000 or less. Thus this minimum debenture size effectively disqualifies 85 percent of the minority small businesses.

2. MINIMUM EMPLOYMENT IMPACT

The 503 program requires an employment impact of 1 job impact (creation and/or retention) for every $15,000 of debenture dollar. Again using the minimum project size of $250,000, the program calls for the creation/retention of 6.67 jobs. The same Census of Minority Businesses shows that 90 percent of the minority businesses have fewer than 5 employees. Thus the categoric disqualification under the 503 program takes effect again.

3. SINGLE FUNCTION

Program requirements call for single function (commercial only) structures. This requirement produces a local barrier in San Francisco, as the majority of the property is multi-function buildings (commercial and residential). Thus the 503 regulation disqualifies much of the property utilized by retailers and restaurants, which make up the majority of the small businesses.

B. *Why is San Francisco doing better in comparison with the rest of the country?*—There are several possible reasons why San Francisco is doing better in the 503 program than the rest of the nation. Perhaps the overwhelming reason for this has to do with the concentration of the minority population in this area. Current estimates range from 40 percent to 60 percent of the total population is composed of minorities.

The characteristics of the minority population also contribute to the disparity with the rest of the country. A recent study, for example, showed that the Hispanic population in the San Francisco bay area, is younger than the rest of the Nation's Hispanics, has a higher education level, a greater number of college graduates, and white collar workers and professionals.

The ethnic make-up of the minority population in this area versus the rest of the country also contributes. In San Francisco, the Asian American population accounts for 25 percent of the total population, versus approximately 1 percent of the national population. In San Francisco, 60 percent of all small businesses are owned by Asian Americans.

San Francisco's ethnic minority population also includes a large number of political refuges. A good number of these refugees ran businesses in their native country and thus started here in business. Additionally, many of refugees who leave political situations are from the upper classes, with capital and education and/or experience. The rest of the Nation does not have such a high concentration of ethnic minorities with the capital, education, and experience to run their own businesses.

The San Francisco bay area is a center for international trade. This allows a greater number of minorities to participate in the entrepreneurial field.

Finally, San Francisco has various support programs that market the 503 program and nurture the small businesses to expand. Assistance includes programs for management and technical assistance, loan packaging, and procurement. The city also has a revolving loan fund offering lower fixed interest rates to bring down the total cost of borrowing. With all of these programs, the city hopes to nurture the small business community so that it can grow and prosper.

Mr. MITCHELL. Thank you, and thank you for waiting so long to give us good information.

It's been a long hard session. It's almost quarter of 2. I thank everyone who helped us to do this and I guess this hearing is now adjourned.

[Whereupon, at 1:45 p.m., the committee adjourned, to reconvene subject to call of the Chair.]

APPENDIX

Appendix A.—Certified Development Co. Program Guide and Summary of Activities

APPENDIX 1--ITEM 1

SBA

Certified Development Company Program

U.S. Small Business Administration
Financial Assistance Division

Program Guide

January 1984

SBA's Certified Development Company Program

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The Small Business Administration
Certified Development Company Program

Introduction

The Certified Development Company

Importance of Small Business

The Long Term Credit Gap

Certified Development Company

How is a Certified Development Company Organized?

A certified development company may operate on a local, regional or statewide basis. It may be organized as a private non-profit corporation or a for-profit stock corporation. The following requirements must be met.

The company must have a minimum of 25 members, or stockholders, and a defined area of operation which may be statewide or smaller.

The company must include representation from all of the following groups:

—government at the appropriate level
—private lending institution
—community organization
—business organization

The development company's members or stockholders must be representative of the area of operations and must include representation from the appropriate level of government that reflects the 503 development company's area of operation. For example, 503 development companies operating on a statewide basis should have representation from an economic development agency of the state government. Citywide 503 development companies must have representation from the city government and countywide 503 companies must have representation from the county government. Multi-county 503 companies must have representation from each county government in the 503 development company's area of operation or a representative from an organization of which the county governments are a member (e.g. an Economic Development District, a Regional Planning Commission, a Regional Council of Governments.)

The development company must have a professional staff with the capacity to package, process, close and service its loans. Furthermore, the development company must be able to provide professional accounting and legal services to small business concerns. These functions may be provided either by the development company's membership or on contractual basis, subject to SBA approval, by a qualified firm or qualified individuals who live or do business in the company's area of operation. If staff capabilities are provided on a contractual basis, persons providing these services must be available to the development company when their services are required.

The development company must contain a five-person board of directors which meets at least bi-monthly. At least one private lending institution must be represented on the board.

No member, shareholder or group of shareholders or members of the development company owning a direct financial interest in the project may have an individual or combined voting control in the development company of more than 10% of the total outstanding stock or membership.

It must have wording in its incorporation papers indicating that its chief purpose is to "promote and assist the growth and development of business concerns including small businesses," and "any monetary profit or other benefits which flow to shareholders (members) shall be incidental to the corporation and shareholders."

How Does a Certified Development Company Provide Assistance to Small Business Concerns?

Certified development companies will be authorized to sell debentures pertaining to an identifiable small concern with SBA's 100% guarantee. The proceeds from the sale of each debenture will be used for plant acquisition, construction, conversion or expansion for each identifiable small business concern.

The amount of each debenture guaranteed by SBA may not exceed one half the cost of each project. The remaining one half will have to be provided from non federal sources.

The certified development company can provide assistance to small business concerns under two basic plans:

Re-lend Plan. Under this plan the small business buys the property being financed, and the certified development company is a conduit through which SBA guaranteed debentures and the non-federal financing flow to the small business concern.

Under the re-lend plan, the business has title to the property, and under the first mortgage formula, the bank is entitled to make a direct loan to the business in exchange for a first mortgage. Proceeds from the certified development company debenture, which is guaranteed by SBA, are reloaned to the small business in exchange for a second mortgage which is then assigned to the SBA.

Lease Plan Under this plan, the development company owns the property and leases it to the small business. The arrangement can be a lease/lease-purchase or a lease with an option to purchase. The development company uses the proceeds from the sale of the debenture along with the funds borrowed from the non-federal sources to purchase property, or it constructs/renovates the property for the identifiable small business.

Example

Percentage	Amount	Source	Security
50%	$50,000	bank	first mortgage
40%	40,000	SBA guaranteed Debenture	second mortgage
10%	10,000	certified development company	third mortgage

Responsibilities of the Certified Development Company

The certified development company has the following areas of responsibility.

Local Injection Requirement

A certified development company will be required to inject into the project an amount equal to 10 percent of the funds necessary to complete a given project. The 10% injection may come from a variety of sources including the small business concern receiving assistance.

Place of Business

Each certified development company must maintain a place of business open to the public during business hours, and listed under a separate telephone number.

Level of Activity

In order to maintain its certification, a certified development company must provide a Section 503 debenture or other types of financial assistance to at least one small business concern each fiscal year.

Records and Reports

The certified development company will be required to submit an annual report at the end of each full fiscal year to SBA containing financial statements, management information, a full activity report in narrative form and data that analyze the impact of its assistance on small business concerns.

Liability of the Certified Development Company

In the event of a default on a debenture issued by a certified development company, the liability of the company to SBA as guarantor shall be limited to all payments by the small business concern to the certified development company that have not yet been transmitted to SBA, and the collateral securing the loan. However, the development company has the responsibility to service the loan of the small business concern and ensure the timely payment of the debenture's principal and interest.

Section 503 Debentures

Terms and Conditions

Purpose

Maximum amount

Rate of Interest

Term

Contract Terms

Collateral

How 503 Debentures Are Funded

Federal Financing Bank

Eligibility

Eligible Small Business Concerns

Ineligible SBA Applicants

SBA-certified development company financing is not available for any small concern in any primarily nonbusiness activity, such as churches, religious organizations, or other organizations, such as loan or finance companies, gambling facilities, or speculative activities that are not open to the public, and for any real estate. Further, a certified development company is prohibited from owning any equity interest in a small business concern which has received financial assistance.

Use of Proceeds

Certified development company financing can be used for the following: land costs—acquisition of land and buildings, construction, expansion, renovation and modernization; machinery and equipment and transportable furniture; to acquire, improve, or extend real estate which is owned by certified development financing recipient; professional fees for services such as appraisals, surveying, accounting, engineering, and architectural services.

How to Set Up A Certified Development Company

Establishing a certified development company in your community is not difficult. You should:

Identify the area to be served by the certified development company.

Identify individuals interested in joining an organization that will play an important role in the economic development of their community. Certified development company membership (25 members are required) must include representation from all of the following groups: a local government, a private lending institution, a community organization, or a business organization.

Identify the officers and directors (there must be a minimum of five) including a president, a vice-president, a secretary and a treasurer. At least one private lending institution must be represented on the board. The board of directors is required to meet bi-monthly and actively participate in management decisions such as the making and servicing of loans by the development company.

Identify the individuals or organizations who will provide the financial and management services that SBA requires for each participating certified development company.

Have a lawyer draw up the articles of incorporation and bylaws for the certified development company based on sample forms obtained from the SBA.

Prepare a membership list with the following information:

Name, address, telephone number, occupation and percentage of ownership or voting control of each member.

Name, address, telephone number, occupation of the individual or organization performing each staff capability required by the certified development company. Identify the specific function provided by each individual and their related experience.

Certification Process

Applications for certification as a certified development company will be submitted on form 1246 to the SBA field office servicing the area in which the prospective certified development company is located. The SBA field office will forward the application, along with its recommendation, to the Associate Administrator for Financial Assistance, Washington, D.C., for final determination of eligibility. Qualified companies shall receive a certificate evidencing eligibility for participation in this program. The following material must be submitted to SBA in the development company's application for certification:

—Articles of incorporation
—Bylaws
—Resolution from the board of directors that gives SBA the authority to certify applicant
—List of officers and directors
—List of members
—List of staff capabilities and individuals who perform those functions
—Statement that no member controls more than 10 percent of the development company's stock or voting membership
—SBA form 912 on officers and directors
—Resume on officers, directors and individuals performing staff functions
—Organizational chart on operating structure of the certified development company
—The certified development company's operating plans
—The certified development company's area of operation and information on the place of business
—Financial statements

Required Information in a Section 503 Loan Application for a Small Business Concern

Application Information Required from The Certified Development Company

All exhibits must be signed and dated

Application Information Required From the Small Business Concern

All Exhibits must be signed and dated

Question and Answers on Certified Development Companies

Question: How is the Certified Development Company Program different from other SBA programs?

Answer: The Certified Development Company Program operates from a entirely different philosophy. Its purpose is to provide long-term financing for the expansion of small businesses in target areas. It has more flexible policies regarding the use of business or personal resources than other SBA programs, in order to encourage businesses to expand or locate in the desired area. The program's concept differs from the "lender of last resort" philosophy inherent in many of SBA's other lending activities. Also, the Certified Development Company Program uses different size standards than SBA's regular business loan program and can offer longer loan maturities. The program can boost genuine community support and involvement because it requires at least 25 members per development company and a tightly defined area of operation.

Question: What are the conditions for receiving a guaranteed 503 debenture?

Answer: The proceeds of the debenture must be of immediate benefit to an identifiable small business, and be so secured as to reasonably assure repayment, and be made to serve a sound business purpose.

Question: Does a small business have to provide any part of the local injection to the certified development company?

Answer: It can, but it is usually simpler to use invoices or receipts to demonstrate that the final asset investment in the project has been made by the business.

Question: Are the loan procedures complicated?

Answer: No SBA has streamlined its loan processing requirements and the applications can be processed rapidly if they contain all necessary documents when submitted.

APPENDIX 1--ITEM 2

Summary of Development Company
Activity by Fiscal Years

	FY/81	FY/82	FY/83	FY/84	Activity To Date
503 Activity					
Certification Activity	134	150	171	77	532
Statewide	5	6	12	11	34
Other	129	144	159	66	498
Loan Making					
Number	187	476	1,348	1,522	3,533
Dollar	$34,685	$81,300	$269,824	$318,027	$703,836
Average Size	$18.5	$17.2	$20.0	$20.1	$ 19.9
Debenture Sales					
Number	33	242	574	1,089	1,938
Dollar	$ 5,206	$43,456	$101,004	$213,566	$363,232
502 Loan Activity					
Number	175	61	93	93	422
Dollar	$ 38.5	$ 18.2	$ 26.2	$ 30.1	$ 113.0
Program Level	$ 150	$ 250	$ 350	$ 350	
Total Development Company Loans					
Number	362	537	1,441	1,615	3,955
Dollar	$ 73.2	$ 99.5	$ 296.0	$ 348.1	$ 816.8

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APPENDIX I--ITEM 4

TOTAL MINORITY 503 FINANCINGS
(from program inception through 9/30/84)

Office	All Minorities		Black Only	
	#	$ (000's)	#	$ (000's)
Region I				
101 Boston	1	114	1	114
156 Hartford	2	273	1	84
Total	3	387	2	198
Region II				
202 New York	2	282		
248 Syracuse	2	294		
252 Hato Rey	7	1,928		
Total	11	2,504	0	0
Region III				
303 Philadelphia	3	269	1	139
353 Washington	6	1,129	5	874
373 Baltimore	2	353	1	275
Total	11	1,751	7	1,288
Region IV				
405 Atlanta	9	1,602	4	1,019
438 Biloxi	1	498		
455 Miami	3	247		
457 Louisville	1	92		
459 Birmingham	3	186	2	130
460 Charlotte	2	324	2	324
464 Columbia	3	937		
491 Jacksonville	5	972	2	593
Total	27	4,858	10	2,066
Region V				
507 Chicago	6	626	2	181
508 Minneapolis	1	48	1	48
515 Detroit	5	1,064	4	951
543 Milwaukee	1	500	1	500
545 Cincinnati	1	39		
549 Cleveland	2	208		
563 Madison	2	300.8		
593 Columbus	4	140	3	114
Total	22	2,925.8	11	1,794

Office	All Minorities #	All Minorities $ (000's)	Black Only #	Black Only $ (000's)
Region VI				
610 Dallas	3	880	1	500
637 Corpus Christi	4	696		
671 Houston	2	437		
681 San Antonio	7	1,102		
Total	16	3,115	1	500
Region VII				
709 Kansas City	3	333	1	40
768 St. Louis	18	1,277	13	924
Total	21	1,610	14	964
Region VIII				
811 Denver	3	570		
883 Salt Lake City	1	399		
Total	4	969	0	0
Region IX				
912 San Francisco	22	6,109	6	1,632
914 Los Angeles	6	2,044		
942 Fresno	2	250		
951 Honolulu	5	2,349		
954 San Diego	9	1,233	1	53
988 Phoenix	5	664	1	75
Total	53	12,649	8	1,960
Region X				
1013 Seattle	3	386		
1086 Portland	3	538		
Total	6	924	0	0
Grand Total	174	31,692.8	53	8,770
All 503 Financings	3,533	703,700	3,533	703,700
Percentage Minority	4.9%	4.5%	1.5%	1.2%

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	20	20	2A

APPENDIX 5
(See Appendix 9 - Block 23)

RACIAL/ETHNIC CATEGORY CODES

To facilitate selecting the appropriate racial/ethnic category code with respect to partnership or corporation business loans, the following guidelines apply: There must be at least 51 percent ownership and/or management on the part of the general partners or corporate officers comprising a particular category. Management may be defined as the exercising of power to make policy decisions and having active involvement in the day-to-day operations of the small business concern. Where at least 51% ownership can be determined to be applicable to minority groups, but no single minority group itself reflects 51% or more ownership of a partnership or corporation, code "8" (see next page) shall be used.

Code	Racial/Ethnic Category
0	BLACK - A person having origins in any of the black racial groups of Africa.
1	PUERTO RICAN - A person of Puerto Rican origins, regardless of race.
2	AMERICAN INDIAN - A person having origins in any of the original peoples of North America, and who maintains cultural identification through tribal affiliations or community recognition.
3	HISPANIC (other than Puerto Rican) - A person of Mexican, Cuban, Central or South American or other Spanish culture or origin, regardless of race.
4	ASIAN or PACIFIC ISLANDER - A person having origins in any of the original peoples of the Far East, Southeast Asia, the Indian subcontinent, or Pacific Islands. This area includes, for example, China, India, Japan, Korea, the Philippine Islands, and Samoa.
5	ESKIMO and ALEUTS - A person having origins in any of the original peoples of Alaska and Aleutian Islands.
6	UNDETERMINED
7	WHITE - A person having origins in any of the original peoples of Europe, North Africa, or the Middle East.

(CONTINUED ON NEXT PAGE)

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	20	20	2A

Code	Racial/Ethnic Category
* 8	MULTI GROUPS - This code shall be used only for minority enterprises where partnership or corporate ownership/management is: 51% or greater for the total of all minority groups (codes 0 through 5) comprising the partnership or corporation, but individually less than 51% for each of these groups.

Example: Partnership consisting of: 1 Hispanic (33-1/3%), 1 Asian (33-1/3%), and 1 White (33-1/3%). This would constitute a "multi-group" category, inasmuch as it is 66-2/3% minority-owned.

NOTE: Where racial/ethnic category code "8" is used, it is important to use program category structure code beginning with "02" (see appendix 7). *

APPENDIX 1--ITEM 6

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	20	20	2E

APPENDIX 1
(See Appendix 9 - Block 2)

OFFICE IDENTIFICATION NUMBERS

NUMBER	OFFICE AND LOCATION		
7700	Central Office -- Washington, DC		
	REGIONAL	DISTRICT	BRANCH
REGION I			
0100	Boston, MA		
0101		Boston, MA	
0150		Montpelier, VT	
0156		Hartford, CT	
0165		Providence, RI	
0172		Augusta, ME	
0189		Concord, NH	
REGION II			
0200	New York, NY		
0202		New York, NY	
0206			Elmira, NY
0235			Melville, NY
0248		Syracuse, NY	
0252		Hato Rey, PR	
0296			Buffalo, NY
0299		Newark, NJ	
REGION III			
0300	Philadelphia, PA		
0303		Philadelphia, PA	
0304		Richmond, VA	
0316			Harrisburg, PA 1/
0318			Wilkes-Barre, PA 1/
0325			Charleston, WV
0326			Norfolk, VA
0341			Wilmington, DE
0353		Washington, DC	

1/ Have ceased servicing functions.

EFFECTIVE DATE	
12-1-80	19

SBA FORM 988A (5-78) REF SOP 20 2E REPLACES PREVIOUS EDITIONS AND SBA FORM 988B

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	20	20	2E

APPENDIX 1

NUMBER	REGIONAL	DISTRICT	BRANCH
REGION III (continued)			
0358		Pittsburgh, PA	
0373		Baltimore, MD	
0390		Clarksburg, WV	
REGION IV			
0400	Atlanta, GA		
0405		Atlanta, GA	
* 0424			Memphis, TN *
0438			Biloxi, MS
0446			Knoxville, TN
0455		Miami, FL	
0457		Louisville, KY	
0459		Birmingham, AL	
0460		Charlotte, NC	
0464		Columbia, SC	
0470		Jackson, MS	
0474		Nashville, TN	
0491		Jacksonville, FL	
REGION V			
0500	Chicago, IL		
0507		Chicago, IL	
0508		Minneapolis, MN	
0515		Detroit, MI	
0517		* Springfield, IL *	
* 0519			South Bend, IN *
0543			Milwaukee, WI
0545			Cincinnati, OH
0547			Marquette, MI
0549		Cleveland, OH	
0562		Indianapolis, IN	
0563		Madison, WI	
0593		Columbus, OH	

EFFECTIVE DATE	PAGE
12-1-80	20

SBA FORM 988A (3-79) REF 00232 REPLACES PREVIOUS EDITIONS AND SBA FORM 988B

S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	20	20	2I

APPENDIX I

NUMBER	REGIONAL	DISTRICT	BRANCH
REGION VI			
0600	Dallas, TX		
0610		Dallas, TX	
0623			Fort Worth, TX
0637			Corpus Christi, TX
0639		Lower Rio Grande Valley, Harlingen, TX	
0669		Little Rock, AR	
0671		Houston, TX	
0677			El Paso, TX
0678		Lubbock, TX	
0679		New Orleans, LA	
0680		Oklahoma City, OK	
0681		San Antonio, TX	
0682		Albuquerque, NM	
REGION VII			
0700	Kansas City, MO		
0709		Kansas City, MO	
0721			Springfield, MO
0722			Sikeston, MO
0736		Cedar Rapids, IA	
0761		Des Moines, IA	
0766		Omaha, NE	
0767		Wichita, KS	
0768		St. Louis, MO	
REGION VIII			
0800	Denver, CO		
0811		Denver, CO	
0875		Fargo, ND	
0876		Sioux Falls, SD	
0883		Salt Lake City, UT	
0885		Helena, MT	
0897		Casper, WY	
0898			Rapid City, SD

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S.O.P. CONTINUATION SHEET	S.O.P. SECTION	S.O.P. NO.	REV
	20	20	21

APPENDIX 1

NUMBER	REGIONAL	DISTRICT	BRANCH
REGION IX			
0900	San Francisco, CA		
0912		San Francisco, CA	
0914		Los Angeles, CA	
0920			Santa Ana, CA
0942		Fresno, CA	
0944		Las Vegas, NV	
0951		Honolulu, HI	
0954		San Diego, CA	
0966		Phoenix, AZ	
0995			Agana, GU
* 0927	Bell, CA - Disaster Servicing Center *		
REGION X			
1000	Seattle, WA		
1013		Seattle, WA	
1040			Fairbanks, AK
1084		Anchorage, AK	
1086		Portland, OR	
1087		Boise, ID	
1094		Spokane, WA	

1/ First two digits = region
Last two digits = office

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APPENDIX 1--ITEM 7

10/31/84

SOI APPROVALS - SBA NATIONWIDE

MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
0	60	1.6474%	$9,696,400	1.3262%
1	17	0.4666%	$2,991,000	0.4091%
2	2	0.0548%	$141,000	0.0193%
3	46	1.7421%	$8,969,000	1.2268%
4	59	1.6160%	$11,978,200	1.6384%
6	14	0.3875%	$3,255,000	0.4452%
7	3447	94.4125%	$693,316,279	94.8341%
9	3	0.0822%	$736,000	0.1007%
AGENCY TOTAL	7651	100.0000%	$731,082,979	100.0000%

SBIC APPROVED - SBA REGIONS

REGION	MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
1	0	2	0.5714%	$198,000	0.2539%
1	4	2	0.5714%	$689,000	0.8821%
1	*	346	98.8571%	$77,224,750	98.8644%
REGION TOTAL =		350	100.0000%	$78,111,750	100.0000%
2	0	7	3.2019%	$198,000	0.2539%
2	4	4	1.8868%	$689,000	0.8821%
2	*	201	94.8113%	$77,224,750	98.8644%
REGION TOTAL =		212	100.0000%	$78,111,750	100.0000%
3	0	8	4.0201%	$1,269,000	3.0659%
3	1	1	0.5025%	$255,000	0.6158%
3	2	4	2.0101%	$320,500	0.7740%
3	4	4	2.0101%	$652,000	1.5745%
3	*	182	91.4573%	$38,814,100	93.7698%
REGION TOTAL =		199	100.0000%	$41,410,600	100.0000%
4	0	8	1.9565%	$1,597,000	1.9820%
4	1	4	0.6522%	$475,000	0.5788%
4	2	8	0.8696%	$297,000	0.3686%
4	4	6	1.3791%	$1,850,000	2.2960%
4	5	1	0.2174%	$214,000	0.2656%
4	*	370	94.5652%	$76,176,900	94.5428%
REGION TOTAL =		46	100.0000%	$80,577,900	100.0000%
5	0	11	1.2566%	$1,903,000	1.1285%
5	1	1	0.1144%	$26,000	0.0154%
5	2	4	0.4577%	$395,000	0.2342%
5	4	6	0.6865%	$710,800	0.4215%
5	5	6	0.6865%	$1,702,000	1.0093%
5	*	845	96.6819%	$163,694,104	97.0724%
5	F	1	0.1144%	$200,000	0.1186%
REGION TOTAL =		874	100.0000%	$168,630,904	100.0000%
6	0	1	0.7813%	$500,000	0.9058%
6	1	1	0.7813%	$157,000	0.2844%
6	2	11	7.7547%	$1,707,000	3.0923%
6	4	3	1.0239%	$751,000	1.3605%
6	6	2	0.5208%	$641,000	1.1612%
6	*	73	87.9557%	$51,444,800	93.1958%
REGION TOTAL =		92	100.0000%	$55,200,800	100.0000%
7	0	10	5.4608%	$1,126,000	1.8195%
7	1	1	1.2346%	$366,000	0.5914%
7	2	1	0.7813%	$29,000	0.0469%
7	4	1	1.3699%	$579,000	0.9360%
7	*	94	150.1706%	$59,785,500	96.6082%
REGION TOTAL =		46	100.0000%	$61,884,500	100.0000%
8	0	1	1.1236%	$57,400	0.3133%
8	1	4	4.4944%	$1,140,000	6.2229%
8	4	1	1.1236%	$207,000	1.1081%
8	7	82	93.2584%	$16,919,000	92.3556%
REGION TOTAL =		89	100.0000%	$18,319,400	100.0000%

502 APPROVALS - SBA REGIONS

REGION	MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
9	0	12	2.4145%	$2,946,000	2.3430%
9	1	1	0.2012%	$105,000	0.0835%
9	2	1	0.2012%	$115,000	0.0915%
9	3	23	4.6278%	$5,082,000	4.0426%
9	4	22	4.4266%	$5,502,000	4.3758%
9	7	436	87.7264%	$111,449,150	88.6377%
9	8	2	0.4024%	$536,000	0.4263%
REGION TOTAL =		497	100.0000%	$125,736,150	100.0000%
10	2	1	0.4762%	$67,000	0.1308%
10	4	4	1.9048%	$790,000	1.5418%
10	6	1	0.4762%	$46,000	0.0898%
10	7	204	97.1429%	$50,334,175	98.2376%
REGION TOTAL =		210	100.0000%	$51,237,175	100.0000%

10/11/84 APPENDIX I--ITEM 9

SUT LOAN APPROVALS

OFFICE	MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
0101	W	1	0.5405%	$114,000	0.2640%
0101	4	1	0.5405%	$500,000	1.1581%
0101	*	181	98.9189%	$42,561,000	98.5779%
OFFICE TOTAL		185	100.0000%	$43,175,000	100.0000%
0150	7	27	100.0000%	$5,223,750	100.0000%
OFFICE TOTAL	*	27	100.0000%	$5,223,750	100.0000%
0154		2	2.4487%	$84,000	1.4714%
0154	4	1	1.2243%	$189,000	3.3109%
0154	*	79	96.3374%	$5,436,000	95.2161%
OFFICE TOTAL		82	100.0000%	$5,709,000	100.0000%
0160		67	100.0000%	$14,714,000	100.0000%
OFFICE TOTAL	*	67	100.0000%	$14,714,000	100.0000%
0161		72	100.0000%	$6,648,000	100.0000%
OFFICE TOTAL	*	72	100.0000%	$6,648,000	100.0000%
0181		12	100.0000%	$1,542,000	100.0000%
OFFICE TOTAL	*	12	100.0000%	$1,542,000	100.0000%
0202	4	1	1.1905%	$28,000	0.8825%
0202	*	83	98.8175%	$3,145,000	99.1175%
OFFICE TOTAL		84	100.0000%	$3,173,000	100.0000%
0249	1	2	25.0000%	$294,000	7.9800%
0249	*	6	75.0000%	$3,393,000	92.0200%
OFFICE TOTAL		8	100.0000%	$3,687,000	100.0000%
0252	1	1	100.0000%	$1,925,000	100.0000%
OFFICE TOTAL	*	1	100.0000%	$1,925,000	100.0000%
0270		1	100.0000%	$1,180,000	100.0000%
OFFICE TOTAL	*	1	100.0000%	$1,180,000	100.0000%
0284		1	100.0000%	$7,500,000	100.0000%
OFFICE TOTAL	*	1	100.0000%	$7,500,000	100.0000%
0302		1	5.5556%	$138,000	2.6470%
0302	4	1	5.5556%	$150,000	2.8760%
0302	*	1	5.5556%	$25,000	.4795%
0302	7	15	83.3333%	$4,900,000	93.9970%
OFFICE TOTAL		18	100.0000%	$5,213,000	100.0000%
0304		1	5.5556%	$81,000	2.7778%
0304	*	17	94.4444%	$2,835,000	97.2222%
OFFICE TOTAL	*	18	100.0000%	$2,916,000	100.0000%
0316	7	6	100.0000%	$2,055,000	100.0000%
OFFICE TOTAL	*	6	100.0000%	$2,055,000	100.0000%
0318	*	5	100.0000%	$974,000	100.0000%
OFFICE TOTAL	*	5	100.0000%	$974,000	100.0000%

SBIC LOAN APPROVALS

OFFICE	MINORITY OWN	NO. LOANS	%LOANS	TOTAL AMOUNTS	% AMOUNT
0241		17	100.0000%	$3,626,900	100.0000%
0241 TOTAL		17	100.0000%	$3,626,900	100.0000%
0252		5	15.6250%	$874,000	11.9070%
[illegible]		1	3.1250%	$255,000	3.4740%
[illegible]		26	81.2500%	$6,211,250	84.6189%
0252 TOTAL		32	100.0000%	$7,340,250	100.0000%
[illegible]		2	6.4516%	$[illegible]	5.9[illegible]%
[illegible]		29	93.5484%	$5,[illegible],000	94.0[illegible]%
[illegible] TOTAL		31	100.0000%	$5,941,000	100.0000%
[illegible]		1	1.8182%	$75,000	1.[illegible]%
[illegible]	4	2	3.6364%	$180,500	1.5815%
[illegible]		52	94.5455%	$11,[illegible],000	96.[illegible]%
[illegible] TOTAL		55	100.0000%	$11,[illegible],500	100.0000%
[illegible]		3	100.0000%	$ [illegible]	[illegible]%
[illegible] TOTAL		3	100.0000%	$317,000	100.0000%
[illegible]		1	1.1111%	$1,[illegible],000	1.1808%
[illegible]	1	2	2.2222%	$475,000	2.5082%
[illegible]		86	95.5767%	$16,[illegible],900	96.3110%
[illegible] TOTAL		89	100.0000%	$16,977,900	100.0000%
[illegible]	2	3	3.2609%	$[illegible],000	47.[illegible]%
[illegible]		89	96.7391%	$[illegible],000	52.[illegible]%
[illegible] TOTAL		92	100.0000%	$1,[illegible],000	100.0000%
[illegible]		4	5.1948%	$[illegible],000	22.[illegible]%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible] TOTAL		[illegible]	[illegible]%	$[illegible],000	100.0000%
[illegible]		3	3.[illegible]%	$[illegible],000	[illegible]%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible] TOTAL		[illegible]	[illegible]%	$[illegible],000	100.0000%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible]	1	1	[illegible]%	$[illegible],000	[illegible]%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible] TOTAL		[illegible]	[illegible]%	$[illegible],000	100.0000%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible] TOTAL		[illegible]	[illegible]%	$[illegible],000	100.0000%
[illegible]	4	2	6.2500%	$847,000	17.7455%
[illegible]		30	93.7500%	$3,[illegible],000	82.[illegible]%
[illegible] TOTAL		32	100.0000%	$4,[illegible],000	100.0000%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%
[illegible]		[illegible]	[illegible]%	$[illegible],000	[illegible]%

SBA LOAN APPROVALS

OFFICE	MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
OFFICE TOTAL		27	100.0000%	$5,240,000	100.0000%
0474					
OFFICE TOTAL		19	100.0000%	$4,291,000	100.0000%
		19	100.0000%	$4,291,000	100.0000%
0481					
0481		2	7.6923%	$593,000	11.2996%
0481		2	7.6923%	$268,000	5.1069%
OFFICE TOTAL		22	84.6154%	$4,618,000	88.0935%
		26	100.0000%	$4,479,000	100.0000%
		1	.4074%	$435,000	3.6234%
		2	.7037%	$295,000	2.4563%
		2	.7037%	$150,000	1.2490%
OFFICE TOTAL		271	95.5986%	$11,901,000	96.3956%
		284	100.0000%	$12,781,000	100.0000%
		1	1.2821%	$48,000	0.4971%
		77	98.7179%	$9,686,040	99.5029%
		78	100.0000%	$9,734,040	100.0000%
0517					
0517		2	1.3986%	$679,000	1.3644%
0517		1	.6993%	$115,000	0.2326%
OFFICE TOTAL		140	97.9021%	$48,695,000	97.8430%
		143	100.0000%	$49,489,000	100.0000%
0517					
		6	10.0000%	$1,702,000	13.6784%
		54	90.0000%	$10,741,000	86.3216%
		60	100.0000%	$12,443,000	100.0000%
0547					
0547			1.8519%	$200,000	4.5825%
		53	98.1481%	$4,411,000	95.4175%
		54	100.0000%	$4,611,000	100.0000%
0548					
0548		1	1.4493%	$50,000	1.1779%
0548*		1	1.4493%	$75,000	0.7299%
		67	97.1014%	$11,000,000	98.1921%
		69	100.0000%	$11,125,000	100.0000%
0548					
0548		1	1.4493%	$50,000	1.1779%
0548*		1	1.4493%	$75,000	0.7299%
		67	97.1014%	$11,000,000	98.1921%
		69	100.0000%	$11,125,000	100.0000%
0562					
0562		1	2.0833%	$81,000	0.1875%
0562		1	2.0833%	$147,000	0.3405%
OFFICE TOTAL		46	95.8333%	$43,111,984	99.8220%
		48	100.0000%	$43,179,984	100.0000%
0562					
OFFICE TOTAL		1	2.0833%	$81,000	0.1875%
		48	100.0000%	$43,179,984

SOI LOAN APPROVALS

OFFICE	MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
059?	?	152	98.0645%	$25,947,000	99.5816%
OFFICE TOTAL		155	100.0000%	$26,062,000	100.0000%
0610		1	1.6667%	$500,000	4.1408%
0610	1	1	1.6667%	$157,000	1.3002%
0610	4	1	1.6667%	$223,000	1.8468%
0610	?	57	95.0000%	$11,195,000	92.7122%
OFFICE TOTAL		60	100.0000%	$12,075,000	100.0000%
0615		7	11.7647%	$168,000	4.9558%
0615	4	1	11.7647%	$528,000	15.5752%
0615	?	15	76.4706%	$2,694,000	79.4690%
OFFICE TOTAL		17	100.0000%	$3,390,000	100.0000%
0620	?	7	100.0000%	$1,175,500	100.0000%
OFFICE TOTAL		7	100.0000%	$1,175,500	100.0000%
0625		11	100.0000%	$1,420,000	100.0000%
OFFICE TOTAL		11	100.0000%	$1,420,000	100.0000%
0630		2	16.6667%	$42,000	14.8674%
0671		10	83.3333%	$1,763,000	85.1326%
OFFICE TOTAL		12	100.0000%	$2,200,000	100.0000%
0675	?	41	100.0000%	$5,896,000	100.0000%
OFFICE TOTAL		41	100.0000%	$5,896,000	100.0000%
0680		29	100.0000%	$8,028,100	100.0000%
OFFICE TOTAL		29	100.0000%	$8,028,100	100.0000%
0690	1	1	4.7478%	$641,000	6.7984%
0690	4	2	9.5023%	$1,000,000	10.6045%
0690	?	18	85.4502%	$7,781,000	82.5971%
OFFICE TOTAL		21	100.0000%	$9,422,000	100.0000%
0695	1	1	4.3478%	$1,000,000	8.6957%
0695	4	1	4.3478%	$1,000,000	8.6957%
0695	?	21	91.3043%	$9,500,000	82.6087%
OFFICE TOTAL		23	100.0000%	$11,500,000	100.0000%
0700	1	1	4.5455%	$1,000,000	6.8966%
0700	4	1	4.5455%	$1,000,000	6.8966%
0700	?	20	90.9091%	$12,500,000	86.2069%
OFFICE TOTAL		22	100.0000%	$14,500,000	100.0000%
0705	?	2	100.0000%	$4,134,500	100.0000%
OFFICE TOTAL		2	100.0000%	$4,134,500	100.0000%
0710	?	16	100.0000%	$4,175,000	100.0000%
OFFICE TOTAL		16	100.0000%	$4,175,000	100.0000%
GRAND TOTAL	?	41	100.0000%	$6,027,500	100.0000%
OFFICE TOTAL		41	100.0000%	$6,027,500	100.0000%
0715	?	3	100.0000%	$4,774,000	100.0000%
OFFICE TOTAL		3	100.0000%	$4,774,000	100.0000%

S-C LOAN APPROVALS

OFFICE	MINORITY CODE	NO. LOANS	%LOAN	TOTAL AMOUNT	% AMOUNT
0767	1	2	4.8780%	$205,000	3.5367%
[illegible]	2	39	95.1219%	$5,959,000	96.4632%
OFFICE TOTAL		41	100.0000%	$6,164,000	100.0000%
[illegible]		14	5.8556%	$1,054,000	7.2361%
[illegible]	1	1	0.4777%	$161,000	0.5029%
0769	2	1	0.4760%	$29,000	0.0906%
0769	4	2	1.1905%	$205,000	0.6405%
[illegible]	1	71	42.8571%	$13,441,000	42.0177%
OFFICE TOTAL		89	100.0000%	$31,990,000	100.0000%
[illegible]		7	11.2903%	$741,000	15.9275%
0811	4	1	1.6464%	$197,000	4.2349%
0811		22	84.6154%	$3,709,000	79.7312%
OFFICE TOTAL		26	100.0000%	$4,650,000	100.0000%
[illegible]		4	100.0000%	$1,441,000	100.0000%
OFFICE TOTAL		4	100.0000%	$1,441,000	100.0000%
[illegible]		1	2.0833%	$295,000	4.4776%
[illegible]		47	97.9167%	$6,512,000	95.5223%
OFFICE TOTAL		48	100.0000%	$6,811,000	100.0000%
[illegible]		1	1.4285%	$57,000	11.4257%
[illegible]	4	1	1.4285%	$445,000	88.7484%
[illegible]		7	100.0000%	$502,000	100.0000%
[illegible]		1	1.4285%	$75,000	1.4925%
[illegible]		1	1.4285%	$57,000	1.1344%
[illegible]		1	1.4285%	$50,000	0.9950

SBA LOAN APPROVALS

OFFICE	MINORITY CODE	NO. LOANS	%LOANS	TOTAL AMOUNT	% AMOUNT
0942	7	60	95.2381%	$14,527,650	96.2118%
OFFICE TOTAL -		67	100.0000%	$15,099,650	100.0000%
0944	1	1	12.5000%	$105,000	5.3544%
0944	7	7	87.5000%	$1,856,000	94.6456%
OFFICE TOTAL		8	100.0000%	$1,961,000	100.0000%
0951	4	5	100.0000%	$2,349,000	100.0000%
OFFICE TOTAL -		5	100.0000%	$2,349,000	100.0000%
0954		5	7.6923%	$1,079,000	3.5283%
0954	1	1	0.7299%	$115,000	0.3905%
0954	2	7	5.1095%	$1,127,000	3.8271%
0954	4	2	1.4599%	$295,000	1.0018%
0954	7	121	88.3212%	$26,655,100	90.5155%
0954	8	1	0.7299%	$217,000	0.7369%
OFFICE TOTAL		137	100.0000%	$29,448,100	100.0000%
0965		1	1.4706%	$75,000	0.5043%
0965	2	4	5.8824%	$589,000	3.9604%
0965	7	63	92.6471%	$14,208,000	95.5352%
OFFICE TOTAL		68	100.0000%	$14,872,000	100.0000%
1013	2	1	1.1111%	$67,000	0.2783%
1013	4	1	1.1111%	$252,000	1.0469%
1013	7	88	97.7778%	$23,751,700	98.6747%
OFFICE TOTAL		90	100.0000%	$24,070,700	100.0000%
1034	7	1	100.0000%	$4,741,000	100.0000%
OFFICE TOTAL -		1	100.0000%	$4,741,000	100.0000%
1	4	1	1.6129%	$50,000	1.9305%
1		1	1.6129%	$25,000	0.9653%
1		60	96.7742%	$2,514,000	97.1042%
OFFICE TOTAL		62	100.0000%	$2,589,000	100.0000%
1		11	100.0000%	$1,006,000	100.0000%
OFFICE TOTAL		11	100.0000%	$1,006,000	100.0000%
1		3	1.5000%	$140,000	1.0000%
OFFICE TOTAL		4	1.5000%	$140,000	1.0000%

Summary of Activity
Bay Area Certified Development Companys
As of September 30, 1984

Development Companys	Date Certified	Certified Development Company's (503's) Loan Activity #	Loan Activity $	Minority Loans #	Minority Loans $	Local Development Company's (502's) Loan Activity #	Loan Activity $	Minority #	Minority $
Bay Area Business Dev. Corp.	5/20/82	36	$ 13,404	4	$1,592	58	$ 14,407	10	$ 3,071
Bay Area Employ. Dev. Corp.	5/20/81	60	14,308	5	911	31	8,079	6	975
Los Medanos Fund	1/06/81	20	5,279	9	2,610	26	4,760	21	4,380
Oakland Certified Dev. Corp.	4/16/84	-	-	-	-	-	-	-	-
San Francisco Bus. LDC	10/26/83	-	-	-	-	12	3,203	8	1,695
San Francisco Ind. Dev. Found.	1/16/81	5	1,362	3	185	2	637	1	381
TOTAL		121	$ 34,353	21	$5,298	129	$ 31,086	46	$10,502

SAN FRANCISCO DISTRICT OFFICE

502 LOANS TO MINORITIES

FISCAL YEAR PERIODS OF 1981 THROUGH 1984

BORROWER	LOAN #	DATE OF ISSUE	AMOUNT	# JOBS SAVED OR RETAINED	CODE
Dodwell Co., Inc. (BABDC)	2081433010	10/22/84	$495,000	5	4
Serata (BAEDC)	2100953009	11/08/84	171,360	2	4
Golden Dragon (BABDC)	1983283007	07/31/84	214,650	7	4
Harry's Furniture (Los Medanos Fund)	1914413005	06/06/84	101,250	3	3
Lau & Can Imports (BABDC)	1914273000	06/06/84	263,250	3	4
Triple C Foods (BABDC)	1864253006	04/12/84	129,600	3	4
Hillcrest Motel (BAEDC)	1860783004	03/30/84	90,000	1	4
Steve Fukuda Photo.(BABDC)	1805153000	01/25/84	224,370	5	4
S.F. Iron Works (BABDC)	1774813004	12/15/83	116,640	2	3
RAF/Arby's Ltd. (Los Medanos Fund)	1777153002	12/20/83	495,000	40	0
Can Designs, Inc.	1693943006	09/22/83	344,250	8	0
Madge, Inc.	1683823001	09/08/83	149,400	4	0
Gonzales Hacienda	1670033001	09/08/83	288,000	3	3
New Oriental Food Co.	1624693010	07/05/83	152,138	8	3
Salco Technical Svcs.	1615583010	07/06/83	111,600	3	4
Dodwell Co., Inc.		06/06/83	194,319	3	4
Chung Luen Co.	1524683010	04/18/83	112,500	2	4
Louise's Oriental Arts	1519823010	04/08/83	338,580	3	4
Darwell Imports	1499583001	03/09/83	341,010	4	4
FLP, Inc.	1457643008	11/29/82	319,140	6	4
Cafe San Marcos	1431323000	09/24/82	481,500	11	4
Las Palmeras Restaurant	1397693009	06/29/82	75,330	4	3
ALL PA Industries, Inc.	1377353004	05/03/82	294,300	3	3
Quong Hop & Company	1337233009	12/31/81	279,450	10	4
Ashbury Market	1294633010	09/18/81	283,500	2	4

SAN FRANCISCO DISTRICT OFFICE
502 LOANS TO MINORITIES
FISCAL YEAR PERIODS OF 1981 THROUGH 1984
Page 2

BORROWER	LOAN #	DATE OF ISSUE	AMOUNT	# JOBS SAVED OR RETAINED	CODE
Michael Tao & Associates	1242403009	05/28/81	122,040	1	4
Uselec Corporation	1242413001	05/26/81	84,240	5	4
Diablo Optical, Inc.	1279823010	08/13/81	78,500	1	3
Fidelity Associates	1279643004	06/13/81	49,500	5	4
Bay Trust Realty, Inc.	1268913007	07/23/81	484,650	3	4
Tanaka Systems	1256293003	06/30/81	74,880	5	4
R. Woo Associates	1255873009	06/30/81	131,400	4	4
F & M TV	1255673008	06/29/81	46,350	1	4
Color 2000	1250463005	06/19/81	499,770	5	4
The Baus Properties	1247843000	06/12/81	74,160	1	4
LTK Associates	1247823005	06/12/81	196,200	1	4
Winton Design	1239523009	05/28/81	137,700	30	0
A & B Medical Lab	1239473007	05/28/81	150,660	2	0
Hwang & Wan	1204493002	03/30/81	182,700	3	4
Nicolas Skaric	1178093006	02/13/81	111,022	1	0
Myong Rae Cho	1178643002	02/13/81	111,022	1	4
Sung Ha Ryoo	1177963005	02/13/81	111,022	1	4
Jung De Kim, MD	1177893008	02/13/81	136,216	1	4
Albina Mendoza	1177733006	02/20/81	109,864	1	0
Hernandez Body Shop	1177533005	02/07/81	332,641	3	3
Bazaar of India	1116453005	12/09/80	121,095	6	0
Totals - 46			$9,411,769	119	0 = 8 3 = 8 4 = 30

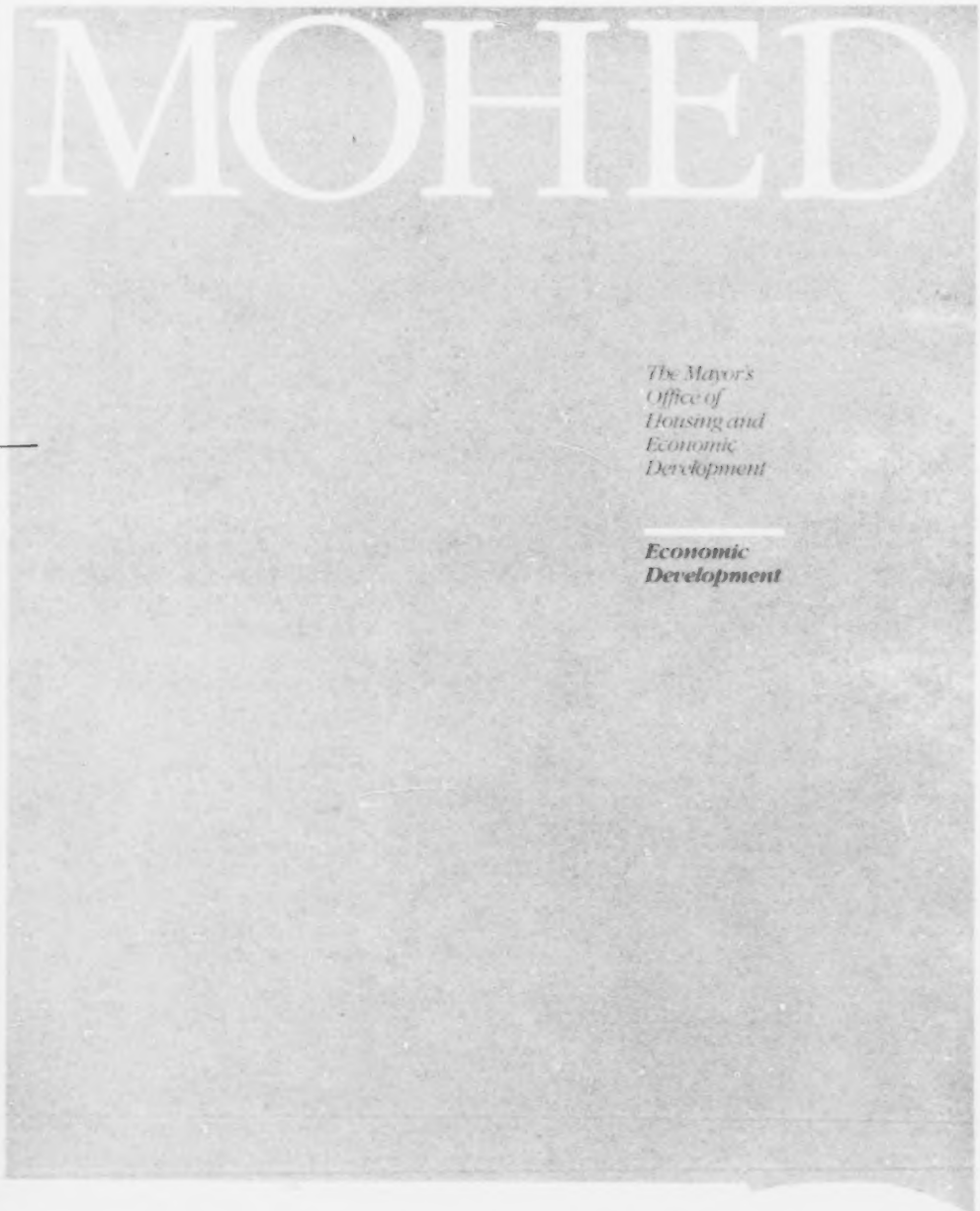
SAN FRANCISCO DISTRICT OFFICE

503 LOANS TO MINORITIES

FISCAL YEAR PERIODS OF 1981 THROUGH 1984

BORROWER	DATE OF ISSUE	AMOUNT	# JOBS SAVED OR RETAINED	CODE
Incina Veterinary Clinic	03/31/81	$380,000	5	3
Allied Fire Protection	03/31/81	226,000	8	3
Coulter Steel & Forge Co.	09/18/81	238,000	NA	NA
Dodge Center	12/29/81	500,000	10	0
Dale B. Herrero, DDS	02/26/82	187,000	5	3
Merit Ends	03/08/82	304,000	8	0
World Air Marine, Inc.	03/08/82	127,000	6	4
House of Yee	09/16/83	100,000	3	4
High Vacuum Apparatus	09/23/82	440,000	22	4
J. Jesus Magana Corp.	09/23/82	160,000	15	4
Trux Transportation, Inc.	11/24/82	500,000	13	0
The Vintage Hotel	01/11/83	384,000	10	4
Big 'O' Tires	02/10/83	100,000	5	4
Smitty's Drilling Service	02/05/83	80,000	3	0
Honda Bros., Inc.	04/21/83	367,000	11	4
The Shoppers Mart	06/08/83	120,000	8	0
Larry Chao Insurance Co.	12/12/83	133,000	8	4
Spacesonics, Inc.	02/26/84	443,000	32	3
The Copy Factory, Inc.	03/20/84	425,000	35	4
Crown Print Centers	04/16/84	320,000	13	3
Jackson Imports	07/11/84	300,000	19	4
Centennial Electric	09/24/84	185,000	5	3
Totals - 22		$6,109,000	244	0 = 5 3 = 6 4 = 10 NA = 1

APPENDIX B.—ADDITIONAL MATERIAL SUPPLIED BY MS. JEANNE BROOKS, DEPUTY DIRECTOR FOR ECONOMIC DEVELOPMENT, MAYOR'S OFFICE OF HOUSING AND ECONOMIC DEVELOPMENT, CITY OF SAN FRANCISCO, CA



When you move, we move.

If your business is ready for a move, you'll appreciate the way we move. We are the Mayor's Office of Housing and Economic Development. If you're moving or expanding your business in San Francisco, MOHED will help you get the job done. Efficiently and economically. With maximum knowledge and resources. And a minimum of red tape.

We'll help you obtain financing at terms you won't find elsewhere. We'll help move your planning and permit applications through the approval maze and connect you with the right resources to facilitate a smooth transition. We'll evaluate your business options, make intelligent recommendations and back them with technical knowledge that saves you time and money. And if we can't help you, we'll refer you to someone who can.

Money.

When it comes to creative financing for your enterprise, MOHED makes it happen. We offer:

- Below market rates
- Fixed rate and variable financing
- Long term loans

"Our lease expired, and we needed to expand. We didn't think we could afford a move within the City. Then we got a development loan through MOHED. Now MMI is here to stay."
— Robert K. Innes, President, Merchandising Methods, Inc.

"MOHED arranged low-interest and tax-exempt financing that enabled us to save our San Francisco ground coffee operation—and 180 jobs."
—Ted Coahran, Vice President, Finance, Hills Bros., Inc.

"I expected hours of paperwork and months of delay. But the staff at MOHED didn't waste time getting the loans my business needed to expand."
—Ray Tom, owner, The Copy Factory.

MOHED can combine our funds with other public or private sources to meet your needs. We can introduce you to lenders and commercial brokers who can provide private financing. And we're experts on the array of available grants and loans from state and federal governments.

You can afford to borrow money for your business with financing packages arranged through MOHED. By lowering interest rates and debt service and providing long-term, fixed-rate financing, our programs fill gaps in the local lending market and make your expansion plans a reality. MOHED also offers free loan packaging through neighborhood economic development organizations.

People.

MOHED helps with the job of filling your jobs. Along with your business move or expansion comes the need for new employees. The Private Industry Council, San Francisco's job training and referral system, can be your first source of people to make your business work. By hiring through PIC, you may be reimbursed for part of the costs of training your new employees, and may also receive tax credits.

When it comes to people, you'll find those at MOHED among the most responsive you'll meet. We're one governmental agency that wants to help you cut through red tape. MOHED staff will check local regulations, keep you informed of pertinent legislation, and new developments that may affect your business plans.

Ask Us.

We'd like to see your business grow. We'll show you how our moves can help your business move and expand in the City of San Francisco.

The Mayor's Office of Housing and Economic Development
100 Larkin Street
San Francisco, CA 94102
(415) 558-5383

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Economic Development Programs

A wide variety of financing, technical assistance, and information programs available through MOHED helps business succeed in San Francisco. These include:

The Small Business Loan Fund: Offers long term expansion capital to small businesses that create new jobs. The Fund provides loans at low, fixed rates to leverage private investment or commercial loans for equipment, leasehold improvement, relocation expenses, and working capital.

Small Business Administration Loans: Provide financing and loan guarantees for owner occupied commercial real estate, equipment, leaseholds, and working capital. City "injection" loans, at below market rates, finance part of the project to conserve business working capital and create jobs.

Industrial Development Bonds: Tax exempt revenue bonds are issued for up to $10 million, at favorable rates and terms, for industrial or commercial development. Bond rating is based on the developer's credit. The project must demonstrate significant public benefits, including job retention and creation.

Urban Development Action Grants: Through a nationally competitive program, cities are awarded federal funds to fill financing gaps for qualifying development projects. Grant awards are determined on the basis of the project's job impact, private leverage, feasibility, tax, and other community benefits. The City then lends these funds to developers for land or building acquisition, construction, machinery, equipment, improvements, and other associated costs. Rates and terms are arranged according to the financing needs of the projects, and the applicant's ability to repay.

Employment Linkage: Addresses the employment needs of businesses and San Francisco residents by linking employers with the Private Industry Council (PIC), the City's job training and referral system. Employers can be reimbursed for training costs and may receive tax credits.

Neighborhood Economic Development Organizations: Provide loan packaging, management assistance, procurement and other services to help small businesses stabilize and expand.

THE MAYOR'S OFFICE
of Housing & Economic
Development

SAN FRANCISCO
INDUSTRIAL DEVELOPMENT FUND
SBA 503 LOAN PROGRAM

★ PURPOSE: Provide long term, below market financing for owner-occupied fixed asset acquisition, including commercial real estate purchase, construction and or rehabilitation related to business expansion. Ineligible uses: working capital, debt consolidation or refinancing.

★ ELIGIBILITY CRITERIA: Applicant business must be a for-profit concern with a net worth of less than $6 million and after tax profits averaging less than $2 million over the last two years.

★ HOW THE PROGRAM OPERATES: Businesses contact Mayor's Office of Housing and Economic Development (MOHED) to obtain assistance to prepare and process a project application. San Francisco Industrial Development Fund (SFIDF), the City's non-profit certified development corporation, sponsors the debenture and obtains an SBA guarantee. Additionally, SFIDF may provide loan funds for the project.

★ STRUCTURE: A typical project is financed accordingly:

Project Cost	Source Of Funds	Interest Rates	Terms Maturity
50% or more	Private lender	Market Rates	Market Terms
40%	SFIDF Debenture (with SBA guar.)	U.S. Treasury Bond Rate (+1/4-3/4%)	Fixed 15, 20 or 25 years
5%	SFIDF Loan	Debenture Rate (+2%)	Fixed same maturity as debenture
5%	Applicant (min.)		
100%			

★ COLLATERAL: The private lender holds a first deed position on the property. The SBA holds a second deed position on the property. The SFIDF will take a third position.

★ AMOUNT OF LOAN: The debenture amount of the loan can be up to $500,000. Maximum project size with a typical structure of 50% private, 40% SBA, 5% SFIDF and 5% applicant funds could equal $1,250,000.

★ ADDITIONAL CRITERIA: This program is designed for existing, successful San Francisco businesses with a solid equity base and proven track record. The project must have a clearly

identifiable community benefit (e.g., quality and quantity of jobs). SBA guidelines call for one job created or retained for every $15,000 of debenture funds.

★ REQUIRED DOCUMENTATION:

- Breakdown of Project Cost
- Business Plan
- Federal Income Tax Returns—personal and business, last three years
- Profit and Loss Statements and Balance Sheets, last 3 years and current (i.e., within 60 days)
- Financial Statements—Affiliate Company, if applicable previous year end and current
- Resumes—officers, director, partners, owners
- Property Agreement or Lease
- Articles of Incorporation, By-Laws, Partnership Agreement
- Estimates of Construction Improvements

THE MAYOR'S OFFICE of Housing & Economic Development

CITY OF SAN FRANCISCO
SMALL BUSINESS LOAN PROGRAM

★ **DESCRIPTION OF THE PROGRAM:** The City Small Business Loan Program provides below-market rate interest loans on favorable terms to qualified small businesses in San Francisco, to enable them to expand and to create new job opportunities, particularly for San Francisco residents, under- or unemployed.

★ **PURPOSE:** Loan funds may be used for real property acquisition, construction, rehabilitation, machinery/equipment, and working capital.

★ **ELIGIBILITY CRITERIA:** Applicant business must be an established, for-profit concern, located in or willing to locate in San Francisco, must have a sound credit history, and must offer job opportunities and provide clearly identifiable public benefit(s).

The *minimum* program goal is to create/retain one permanent, full-time equivalent job per $10,000 of City loan proceeds.

An approved Employment Plan and First Source Hiring Agreement is required; semi-annual employment reporting is required for 2 years.

★ **MAXIMUM LOAN AMOUNT:** The applicant should raise partial financing from a private source (private financing and/or equity). The City share may comprise up to one-third of the project cost, to a maximum of $50,000, subject to availability of funds. (Lower-leveraged loans are permitted under special circumstances up to $15,000.) Working Capital limit is 30% of City loan.

★ **INTEREST RATE:** The Small Business Loan rate is generally prime or lower, to a maximum rate of 15% and minimum of 5%, and is fixed for the term of the loan.

★ **MATURITY:** Flexible. The City's repayment period may exceed that of the private companion loan, but generally does not exceed the life of the assets purchased, up to 20 years. (The maximum term for lower-leveraged loans is 10 years.)

★ **COLLATERAL:** City loans must be appropriately secured by real property, equipment, or other business and/or personal assets, but may be subordinate to the private lender.

★ **HOW THE PROGRAM OPERATES:** Businesses apply at the Mayor's Office of Housing and Economic Development. Assistance in preparing a loan application package is available through subcontractor, non-profit economic development organizations. Loan applications are prioritized according to job creation/retention, for projects which are located in or which upgrade targeted economic development areas of the

100 LARKIN STREET, SAN FRANCISCO, CA 94102 (415) 558-3483

City, for projects designed to leverage higher ratios of private investment. Final credit decision is made by the Loan Administration Board

★ **FEES:** 3% of the City loan amount, $500 minimum.

★ **REQUIRED DOCUMENTATION:**

- Breakdown of Loan Request
- Business Plan
- Profit and Loss Statement and Balance Sheet, up to 3 years and current (no older than 60 days)
- Federal Income Tax Returns up to 3 years
- Personal Financial Statements of proprietors, partners, or corporate officers
- 12 Month Income Projection
- Management resumes of work experience and education
- Price estimates for equipment, leasehold improvements, or construction, if applicable
- Copy of Lease/Mortgage Agreement

THE MAYOR'S OFFICE
of Housing & Economic
Development

URBAN DEVELOPMENT ACTION GRANT (UDAG) PROGRAM

★ **DESCRIPTION OF THE PROGRAM:** The UDAG Program is a federal "gap" financing mechanism for linking private investment with public resources to bring about community development.

★ **PURPOSE:** UDAG Funds may be used to purchase land and/or building, for new construction and property rehabilitation; machinery, equipment, and site improvements; for utilities, parking, streets, sidewalks, and other public improvements; and to cover professional fees, relocation, and permit costs associated with the project.

★ **STRUCTURE:** UDAG funds must be leveraged with private investment dollars (institutional and/or individual). The minimum leverage required is 2.5 (private) to 1 (UDAG); leverage ratio of 6 to 1 is the national average. The private financial commitment must be firm prior to consideration of a UDAG application.

★ **MAXIMUM LOAN AMOUNT:** There is neither a maximum or minimum amount. UDAG's in San Francisco have ranged from $500,000 to $3 million. The UDAG loan represents the "gap" or minimum amount needed to make the project financially feasible.

★ **INTEREST RATES AND TERMS:** Rates are negotiable, according to what is needed to make the project financially feasible. Invariably UDAG rates are below market. Terms, conditions, and amortization schedules are arranged to meet the applicant's ability to repay.

★ **HOW THE PROGRAM OPERATES:** Each fiscal quarter there is a national competition for UDAG funds to be granted by the U.S. Department of Housing and Urban Development (HUD). The Mayor's Office of Housing and Economic Development works with private developers to prepare applications for eligible, job-intensive projects, which have received the approval of local government and the Area and Central Offices of HUD. HUD grants UDAG funds to the City which, in turn, lends funds to the Private Developer. As repayment of the loan is made, the funds are recycled by the City to assist other eligible projects.

★ **SELECTION CRITERIA:** Criteria include the extent of job creation and private financial leveraging which would result from the project. The national average is approximately $5,000 in UDAG funds for every new job created. The extent of participation by minority and/or low to moderate income persons through temporary and permanent jobs associated with the project is also considered.

The project must demonstrate adequate debt service coverage. The applicant's record of accomplishment and community tax benefits of the project are also weighed.

100 LARKIN STREET, SAN FRANCISCO, CA 94102 (415) 558-5983

CITY AND COUNTY OF SAN FRANCISCO INDUSTRIAL DEVELOPMENT BOND (IDB) PROGRAM

★ **PURPOSE:** The City of San Francisco may issue tax-exempt, industrial development revenue bonds under favorable terms and conditions to fund capital industrial/commercial projects.

★ **MAXIMUM BOND ISSUE:** The maximum principal amount of an individual bond issue is $10 million, for which the applicant will provide his/her own source of credit, either through a private lender or by public offering of the bonds.

★ **RATE OF INTEREST:** Maximum 12% interest and a discount of up to 5%, the actual rate will depend upon the rating of the bond issue by national bond raters and competition by bidders.

★ **USE OF PROCEEDS:** IDB proceeds may be used to finance the cost of land acquisition, for construction, expansion, renovation, and for equipment for qualifying industrial, commercial, or energy-related facilities. Proceeds may not be used for working capital.

★ **PROCESSING TIME:** After a complete application is submitted to MOHED, approximately 90 to 120 days are required for processing and marketing of the bond issue.

★ **SELECTION CRITERIA:** The project must demonstrate specific public benefits as follows:

- Eligible projects must demonstrate opportunities for new job creation.
- In addition, preference is given to projects that increase employment opportunities for San Francisco residents, under- or unemployed, and/or that retain jobs in San Francisco.
- Favorable treatment is also given to projects that improve, upgrade the quality of life of neighborhoods or "distressed" areas/sites in San Francisco.
- Other public benefits include: positive fiscal impact on local government; degree of environmental impact created and consumer benefit resulting from improved products and services; energy and natural resources conservation achieved.

★ **HOW TO APPLY:** Contact the Mayor's Office of Housing and Economic Development, Economic Development, 100 Larkin Street, San Francisco, California 94102, (415) 558-5383.

November 12, 1984 SAN FRANCISCO BUSINESS JOURNAL

SMALL BUSINESS

Bending the rules

Holey Bagel gets loan with SBA help

By Richard L. Cohen

The federal Small Business Administration recently bent an important rule in an effort to save a small business, the Holey Bagel store on 24th Street in San Francisco. The rule bending opens the door for entrepreneurs and developers to get help in financing mixed-use property loans where residences and small businesses are part of the property.

The battle by the bagel shop to find financing also involved the mayor's office, where city officials stood firm on their pledge to protect existing housing on commercial streets. The mayor's staff worked closely with the SBA and the Holey Bagel to come up with a unique financing package.

The Holey Bagel case started back in January when Scott Kronenberg and Gary Goldstein, the owners, found out that their landlord was planning to sell the building. They reasoned that their $1,500 monthly rent for the 1,000-square-foot store would be increased substantially under new ownership. They would then have to either close the store or move. It would have been difficult to find another location that was as good as its storefront on busy 24th Street.

The other option was to buy the building. There was only one problem with this idea — money. The 5-year-old business was operating at slightly better than breakeven, and there was little cash to spare.

So, they went looking for financing. Their first stop was at Wells Fargo Bank, which had initially lent them the money to get started in business. Wells Fargo and every other bank they went to turned them away. "Their main problem was that the second and third stories of the building were zoned for residential," says Larry Wodarski, chief of the SBA in San Francisco. "Because rent control in the city applies only to residential and not commercial units, banks would rather lend to commercial owners."

The mayor's Office of Housing and Economic Development got involved in the situation because it had provided financial assistance to the Holey Bagel to help them open their store at the corner of Masonic and Haight in January.

According to Susan Nakata, chief business development officer for the office, the city wanted to help the bagel shop but would not budge on allowing the two upstairs units to become commercial space.

"The mayor had recently made a talk in front of the Chamber of Commerce saying that she would not endorse converting residences to commercial use in the commercial strips in the city," she says.

The next step was to tackle the SBA rule prohibiting loan guarantees for mixed-use buildings. "Their rule is there to keep out the speculators," she says. "But, that's not what the Holey Bagel was doing. We had approached the SBA before on mixed-use developments and been turned down. Because of the merits of this case, we thought we'd try again."

Right from the start, Nakata says, Wodarski at the SBA was sympathetic. However, he saw two problems in striking a deal under what is called the 502 loan program. The first was the residential prohibition and the second was the program's guideline that at least 50 percent of the space must be used by the purchaser.

"Theoretically, the Holey Bagel was only using one-third of the space because they only occupied the ground floor of a three-story building," he says. "We went over every inch of the property to see what could be done." By counting the backyard where the shop had a generator and stored a few things, Wodarski was able to achieve a 50 percent ratio for the property.

The other problem was more sticky. "Holey Bagel passed all of the tests of small business," says Wodarski. "I figured that someone would have been through this before so I called our agencies in Boston, Philadelphia and a few other cities. No one had. So we began to look beyond the regulation to the purpose of the city and decided to make an exception to the rule."

The deal that has been worked out calls for a total project cost of $320,000. There is a loan for $284,500 that is 90 percent guaranteed by the SBA. The loan comes from The Money Store in San Jose, a financial institution whose sole mission is to make SBA guaranteed loans. The city, through the San Francisco Industrial Development Fund, put up $25,000 at 9 percent fixed interest for 25 years. The Holey Bagel owners are spending an additional $30,000 of their own money to correct the code violations in the residential units.

For Goldstein and Kronenberg, getting the loan means that, instead of $1,500 a month rent, they now have loan payments of $4,000 a month. But the two rental units should offset about $1,500 of that. So, it works out to $1,000 more a month than they are currently paying. "We'll just have to expand our business and work harder," says Kronenberg.

The bagel shop recently has expanded its line to include a number of baked goods and deli items besides its core bagel business. Kronenberg and Goldstein have just opened up a third Holey Bagel location. This one is in the West Portal neighborhood and was financed internally by the company.

Last year, Bay Area Bagel Inc., the parent company for the Holey Bagel, grossed $500,000. In 1984, Kronenberg expects the company will do $750,000, with much of the growth coming from the Haight-Masonic store. ■

SAN FRANCISCO BUSINESS JOURNAL
A SCRIPPS-HOWARD BUSINESS JOURNAL

Production. Preservation. People. The Mayor's Office of Housing and Economic Development brings the three together. To preserve the richness of San Francisco's cultural and economic diversity, MOHED softens the impact of increasing housing costs and changing economic forces. With responsive programs and new approaches to financing, MOHED addresses the need of City residents for housing, employment, and small business stability.

Growth in San Francisco is not a matter of new replacing old. A city's character is enhanced as much by the preservation of its neighborhoods and established businesses as it is by the development of new housing and industry. MOHED works with neighborhoods to support planned growth while encouraging projects that take advantage of San Francisco's rich variety of existing living and working space.

Producing affordable housing and providing and retaining jobs for San Francisco residents are among the toughest challenges we as a City face. Our housing costs are among the highest in the nation, sites for development are relatively scarce, and we are trying to adjust to a changing economy with a new and different type of workforce.

In an effort to concentrate and coordinate the City's resources to assist targeted development, I combined my housing and economic development functions in a single office in July, 1983. The mandate of the Office of Housing and Economic Development is broad but clear: to devise and administer programs to preserve and produce housing that is affordable to low, moderate, and middle income San Franciscans, and to retain and attract job opportunities, particularly for City residents. To accomplish this, the Office serves as a "one-stop shop" for developers, for profit and non-profit, and small businesses; it offers a menu of financing programs, and an ability, on my behalf, to walk a developer through the various local permit and review processes, or to assist a small business with a land use or building code problem.

I believe that City Hall can be more than a passive bystander in the development process. By acting as partners and catalysts, not merely regulators and bureaucratic adversaries, the Office of Housing and Economic Development helps achieve balanced growth in San Francisco.

At the same time, MOHED recognizes that a City's most valuable resource is its people. The services the Office provides represent the most fundamental rights of people for a home and a job. By working for the basics, MOHED helps insure a high quality of life for San Franciscans.

Sincerely,

Dianne Feinstein
Mayor

HOME.

Creating A More Livable City

As market forces drive housing costs upward, the Mayor's Office of Housing and Economic Development works to increase the number of affordable homes for the people of San Francisco. We find creative ways to support private and preservation initiatives, bringing to benefit a broad spectrum of the City's population.

In addition to providing for construction of new homes, MOHED supports imaginative projects in rehabilitating existing housing space – from small, residential hotel rooms to homes for large families.

In this way, we bring together funds from private and public sources and partnerships between people – between investment concerns, lending institutions, developers and community-based groups. Using limited resources, we assemble financing packages to close the gap between state and federal funding sources and the high cost of housing development in San Francisco. By these efforts, the Mayor's Office of Housing and Economic Development has preserved more than 10,000 places for people to call home since 1990.

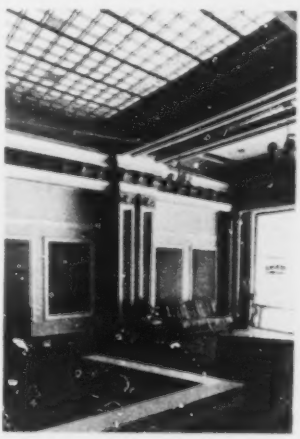
Residents of the Wharf Plaza development enjoy its 230 new housing units. CDBG Site Acquisition Funds contributed $750,000 of the $14.8 million total development costs.

Creative financing transformed a weed-filled lot at the foot of Telegraph Hill to comfortable housing for 230 low-income elderly and families. The new Wharf Plaza development is the result of a joint venture between a private developer, Pacific Union Company, and the nonprofit Chinese Community Housing Corporation—and a unique package of federal subsidies, grants, tax-exempt bonds, and Site Acquisition Funds.

It's one example of MOHED's efforts to secure funding for nonprofit, neighborhood-based housing development corporations that develop or rehabilitate affordable living spaces. In addition to overseeing the projects, MOHED secures federal and state subsidies and assembles financing packages.

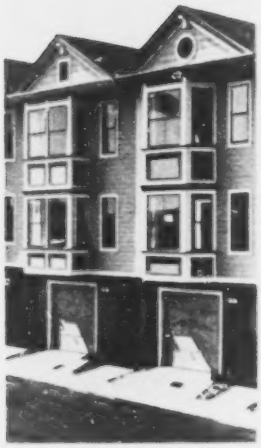
Many of the projects make use of unusual sites to provide homes for low-income families. Casa de la Raza, a 51-unit townhouse development in the historic Mission District, will make use of the City's "air rights" over a new public parking garage. Federal Community Development Block Grant funds of $1.3 million, administered by MOHED, will finance a deck on which the housing will be built. A similar development by the Mission Housing Development Corporation, under construction at 16th and Hoff Streets in the Mission District, will feature a 49-unit apartment complex built on air rights over another public garage.

New Homes From Old Other projects reclaim vacant or vandalized housing. Once a proud example of turn-of-the-century workmanship, the neglected Herald Hotel in the Tenderloin was no place to live until recently. MOHED stepped in to help private developer Bernard Hagan renovate the relic, making it home for 72 seniors, many of them disabled. As a recognized historic building, the Herald Hotel preserves San Francisco's architectural ambiance while meeting the City's need for affordable living space. In the Tenderloin area alone more than 1200 apartments now are being made available for low-income residents with financing arranged through MOHED.



The lobby of the Herald Hotel was restored to its former glory with $588,000 in City Office Housing Production Program funds and Section 8 subsidies. The $1.8 million development provides 72 units of senior and handicapped housing.

Home Sweet Homeownership



The 120-unit Parkview Heights development sits on surplus City land. Urban Site & Application Funds of $935,881 plus $6,064,000 in tax-exempt bond financing contributed to the $12 million development costs.

The American dream of owning a home is just that for many families—a dream. But in San Francisco, MOHED is working to make dreams reality with imaginative approaches to financing and housing opportunities for first-time homebuyers.

A $60 million mortgage bond agreement signed by Mayor Feinstein in 1982 provides tax-exempt financing for first-time homebuyers in San Francisco. At 10¼ percent, the interest rate is nearly four points below conventional terms. The City-wide Affordable Housing Program—the first of its kind in the nation—makes more than 600 mortgages available, including 500 new homes in 22 locations throughout the City. The program is possible through the sale of tax-exempt bonds plus a $5 million Home Mortgage Assistance Trust, funded by downtown builders, through the Office Housing Production Program. The future homeowners pay no more than one-third their monthly income on a mortgage. The remaining expenses are paid by the trust.

"This is the best, fairest, and most exciting financing in California," noted Ann Winchester, vice president of First Nationwide Savings, the program lender. "For the majority of borrowers in this program, this is the only opportunity they would have to buy a home in San Francisco."

A joint effort between MOHED and a private developer, Barratt Homes, helped transform a surplus site on Potrero Hill into 120 Victorian-style townhouses. Special funding

These youngsters don't know that $52k100 in CDBG Site Acquisition Funds and $3,705,000 in tax-exempt bonds helped make the $4.5 million Farragut Manor possible. But for them — and 42 families — it will be home.

through the Citywide Affordable Housing Program combined with the developer's ability to keep sales prices between $70,000 and $114,000 allowed buyers with incomes between $19,000 and $49,000 to own homes for the first time.

Promising Sites The voices of children will sound again at the site of long dilapidated Farragut School in the Ingleside neighborhood after completion of a housing development on the surplus land. Forty-two families and individuals will call it home, thanks to the City's bond financing; the nonprofit Housing Conservation Institute; BRIDGE, the project's developers; and MOHED.

To encourage opportunities for low-to-middle income homebuyers, MOHED combines tax-exempt bond issues and Housing Site Acquisition Funds to assist development of this and other publicly-owned sites. Innovative use of these is an example of MOHED's commitment to making the most of San Francisco's available land.

The Home Stretch

The Community Housing Rehabilitation Program helps make crowded living spaces more liveable. At a six-unit building in the Mission District owned by the Mission Housing Development Corporation, CHRP funds paid for interior redesign of the apartments, as well as new electrical, plumbing, and heating systems. The result: several large families now have enough bedrooms for all their children.

CHRP offers low-interest loans for rehabilitation to improve a building's accessibility, safety, and energy efficiency, and to correct housing code violations. More than 1,000 apartments and houses throughout the City were improved through the program since 1981.

Residential hotels throughout the City also were improved through CHRP. The 82 renovated rooms at the Clayton Hotel in Chinatown, for example, boast compact furniture designed to fit small living spaces. The hotel itself illustrates optimum use of City and community resources—it was acquired by the Chinese Community Housing Corporation with help from the Housing Site Acquisition Program, is home for the Manilatown Senior Center, and is an award-winning combination of low-income housing and historic preservation.

Re-Habitats One San Francisco homeowner, a retired teacher, learned that disability doesn't mean dependence with a little help from HILP. HILP—the Home Improvement Loan Program—enabled her to pay for modifications to her Excelsior District home to accommodate her disability, and for much-needed plumbing and wiring as well.

MOHED designed HILP in 1983 when faced with a growing demand throughout the City for low-cost rehabilitation financing. The program is funded by an $8 million tax-exempt bond issue combined with $1 million in federal Community Block Development funds. Through HILP, low- and moderate-income homeowners can obtain loans of up to $15,000, at 3 or 9.95 percent interest, to make their homes more habitable.

Upper left — 1380 Ala Negativos and Community Housing Rehabilitation Program funds contributed $1,630,000 to the $1.9 million renovation of the 82-unit Clayton Hotel.

Right — Section 8 and 1380 Ala Negativos funds contributed $600,000 to the 61-unit $5.2 million Ruthfona Gardens in the Mission District.

MOHED is looking toward increasing the amount of available housing, particularly rental housing, during 1984. As in the past, MOHED will look for creative approaches—new financing techniques and effective combinations of public and private resources—to address this issue.

One solution is the $10 million Housing Affordability Fund proposed by Mayor Feinstein in the City's 1984 budget. The Fund could stimulate construction of more than 1,000 housing units, many reserved for moderate-income residents. A tax-exempt bond program for apartment construction, developed by MOHED, will work in conjunction with the Fund.

Two projects are already candidates for the program: a 130-unit apartment development in the Mission District at Army and Folsom Streets, and renovation of a vacant 82-unit public housing project in Hunter's Point.

Another project slated to begin this year is the Balboa Park development near San Francisco City College. In keeping with MOHED's efforts to provide sorely-needed housing within the limits of San Francisco's land availability, the residences will be built on a now-unused water reservoir site.

Economic Strength Is The City's Business

Cities that thrive are cities that work. Creation and preservation of the jobs, tax revenues and public and private investments which contribute to the City's growth are a large part of MOHCD's economic development effort.

The effort emphasizes the importance of preserving small businesses that serve the neighborhoods. MOHCD works with nonprofit Neighborhood Economic Development Organizations to provide loan and technical assistance, marketing, and promotional services along with support to Main Street and Merchant groups. San Francisco's large, diverse economy offers MOHCD many options for assisting businesses to expand, relocate and start up. Assistance can take the form of loans, grants, technical assistance and other programs.

Economic development efforts in San Francisco must be responsive to a diverse population, and MOHCD encourages an environment that results in jobs that provide a broad spectrum of skills. For example, assistance through MOHCD programs ranges from light industrial businesses that employ unskilled workers to "high tech" companies that employ engineers and computer programmers. In addition to providing the economic vitality that generates City revenues, MOHCD programs help to maintain the ethnic diversity that makes San Francisco a unique city.

Big Help For Small Business

Dreams became reality for Hua Ngo and Barry Cohan with $41,200 at 9 percent interest over seven years from the Small Business Loan Fund. H&N Fish Company was expanded at a total cost of $122,000.

After coming to California from Viet Nam in 1979, Hua Ngo worked sixteen hours a day at two jobs before he was able to purchase a fishing boat and go into business for himself. One evening vandals cut the mooring line, and the boat was found shattered against the rocks in Monterey Harbor. Ngo's dream seemed shattered too, but he started over, this time purchasing a day's catch from Monterey fishermen, packing it into his car, and selling it to Bay Area wholesalers.

By 1982, Ngo established H & N Fish Company, a San Francisco wholesale and distribution business. In 1983 he was ready to expand to a 10,000-square foot warehouse—and he and general manager Barry Cohan came to MOHED for help. With help from the Small Business Loan Fund, Ngo was able to borrow $41,200 for the expansion at "antique" rates: nine percent fixed interest over a seven-year period.

A $250,000 SBA 502 loan and $6000 in City funds helped Ray Tom purchase a new site for his Copy Factory. Another $50,000 from the Small Business Loan Fund, at 8 percent fixed interest over five years, helped pay for $124,605 in equipment costs.

The Small Business Loan Fund provides low-interest, fixed-rate loans for new equipment, improvements, and working capital. Public funds are leveraged with private investment, and the City contributes one-third of the project costs, or up to $50,000. Repayments are returned to the Fund for the benefit of more small businesses like Ngo's.

Lending Help Ray Tom, owner of the Copy Factory, thought there'd be too much paperwork, too much delay and red tape. Instead, he found that MOHED, with the assistance of two Neighborhood Economic Development Organizations, Asian, Inc. and Mission Economic Development Association, could easily assemble the loan packages he needed to expand his business.

A $250,000 loan from the SBA 502/503 Loan Program and $6,000 in City funds helped Tom purchase a new facility and add a second floor. Another loan combination, using a $50,000 Small Business Loan plus bank and private equity sources, paid for new printing equipment. Tom hired most of his new employees through the Private Industry Council, the City's employment and training system.

MOHED's loan programs help small businesses grow by offering long term fixed rate financing, lowering interest rates and debt service, and otherwise filling gaps in the local financing market. In turn, businesses are able to retain or create job opportunities for San Francisco residents and contribute to the economic strength of the neighborhood.

The bottom line illustrates the success of these programs. In the past years, 74 small businesses have retained or created 3,638 jobs for San Franciscans due to $141,495,182 in loans made available through MOHED.

Folger Bros., Inc. keeps on working in San Francisco with a $5 million IDB, a $555,000 UDAG at 8 percent interest deferred for the first year with a ten-year amortization. The bonds helped acquire a new $20 million site for the coffee operation.

PROPERTY OF
IDB

Through the Employment Linkage Project, MOHED connects businesses needing employees with City residents needing jobs.

MOHED clients and many large downtown developments use the Private Industry Council, San Francisco's employment and training system, as their first source to fill job openings. The Employment Linkage Project emphasizes neighborhood employment for local residents. The new Ramada Renaissance hotel in the Tenderloin, for example, will open its doors with many Tenderloin residents employed on its staff.

Keeping Business in Business

MOHED uses two financing programs—Industrial Development Bonds (IDBs) and Urban Development Action Grants (UDAGs)—to promote business retention and development.

IDB financing can be used for a variety of industrial or commercial projects which create or retain jobs for San Franciscans. IDBs are exempt from federal tax, and may be issued to cover total project costs up to $10 million. Thus, businesses may obtain long-term development financing at two to three percentage points below market rates with little or no equity. Through the UDAG program, cities receive federal funds to help private development projects which create jobs, enhance neighborhoods, leverage private funds, enhance the tax base, or otherwise benefit low and moderate-income citizens.

Both programs came into play to assure a new home for Hills Bros., Inc. When the coffee manufacturer was faced with the prospect of moving out of the City, MOHED stepped in to keep the company—and its jobs—in San Francisco.

The Ramada Renaissance Hotel

Robert K. Innes and Merchandising Methods, Inc. have a new $4 million facility with the assistance of a $485,000 UDAG. The terms: no interest during construction, 8 percent interest deferred for the first year, 8 per cent for the next four years, and 10 percent for the next ten years, a 30 year amortization with a 15 year maturity.

MOHED helped Hills Bros. obtain a $5 million I.D.B. to acquire a vacant Safeway facility at the foot of Potrero Hill, and a $558,000 UDAG to purchase capital equipment. Hills Bros. will use the site for expansion, saving 156 blue collar jobs and hiring 44 new workers, many of them former Safeway employees laid off when the facility closed.

Working for Jobs Merchandising Methods, Inc. (MMI), specializing in direct mail, had a 23 year history in San Francisco. But in 1982, that tenancy seemed uncertain – MMI's lease was about to expire. Though the firm needed to expand, it lacked sufficient funds to finance a move within the City. While MMI had a strong commitment to remain in San Francisco – home for most of its 107 blue-collar employees – the firm's future and its jobs seemed in jeopardy.

The dilemma was solved by a combination of economic development resources and loans tailored to meet MMI's expansion needs. MOHED arranged a UDAG of $485,000, and the Redevelopment Agency sold three acres of land worth more than $500,000 to the firm. A loan from Wells Fargo Bank and private equity provided the remaining $3.5 million needed for MMI's expansion. This summer, MMI will celebrate the opening of its new $4 million facility in India Basin. More than 32 new employees will be hired from the Bayview-Hunter's Point area through PIC, supplementing MMI's largely minority staff.

To date, the City has assisted seven local developments with UDAG loans, and has approved issuance of almost $9 million in IDBs, resulting in the creation and retention of more than 2000 jobs. Under MOHED's administration, repayments from both programs go back to the community for additional economic development projects.

There Grows The Neighborhood When the giant neon beer glass atop the Hamm's Brewery ceased its endless refilling after the plant's closure in 1972, some of the spirit went out of the community as well. Over the next ten years the vacant building became a highly visible neighborhood eyesore. But with the assistance of a UDAG of almost $3 million, the old brewery will reopen as a $20 million complex of offices and showrooms, bringing new economic life to the area.

Let There Be Light Industry Another MOHED project will save an endangered species – small light industrial business. The 150,000-square-foot Rede/ASIAN, Inc. project at 18th and Bryant Streets will be the largest light industrial building constructed in San Francisco in over 15 years. The condominium project will offer ownership opportunities to light industrial businesses operated by minorities, and will provide more than 400 jobs.

Working In New Directions

A new goal for MOHED is helping nonprofit organizations reduce their dependency on grant funds while increasing community services by offering expert technical assistance.

CSEARR's Thai Phuc Chung Wong, Rick Rutvoh, Kieu-Nhi Lee and Canh Duc Dang

The Center for Southeast Asian Refugee Resettlement, for example, came to MOHED to assemble financing for a new Community Center. They had a location, $500,000 in foundation grants and federal monies, and plenty of dedication. They needed a first mortgage lender. They got the negotiating and advocacy skills of MOHED's staff, who arranged a $350,000 institutional loan and additional foundation funding for the project. The new Center will provide childcare, commercial space for fledgling refugee-owned business, and a home for CSEARR.

As it did for CSEARR, MOHED staff will continue to find imaginative ways to strengthen the economic development of the City's neighborhoods and its businesses. A number of efforts this year will increase MOHED's ability to anticipate and act upon economic development opportunities.

These include a computerized Land Bank to identify underutilized industrial sites for future business development, and a Business Retention Program to identify and evaluate present and future business activities in the area South of Market Street.

MOHED's responsibilities are as diverse as the City it serves. They include coordinating financing for developments to house a hundred families—and making a small room comfortable for an elderly citizen. Or supporting a business that employs a neighborhood full of people while helping a family business stay in the neighborhood. And moving San Francisco forward—but never forgetting the importance of its economic and cultural roots.

While involved in City-wide concerns, MOHED also represents the most simple, yet important needs of individual San Franciscans: the rewards of employment, and the security of home.

MOHED
Mayor's Office of Housing and
Economic Development
100 Larkin Street
San Francisco, CA 94102
(415) 558-5383

HOUSING PROGRAMS

MOHED draws from a variety of funding resources to help build new homes, rehabilitate old ones, and to assist owners and renters in meeting the high cost of housing. These include:

Section Eight Construction and Rehabilitation Programs: A combination of rent subsidies and mortgage loans with low or local bond financing which pays for new or rehabilitated housing. Under the programs, low-income residents pay no more than thirty percent of their income for housing. Although the federal government is phasing out the programs, over 1,000 San Francisco apartment developments now benefit from the subsidies.

Office Housing Production Program: Downtown office developers are required in this program to provide or contribute low-cost housing to reduce the effect of office development on available housing space. To date, the program has provided over $20 million in financing to rehabilitate vacant housing, construct new housing, supplement Section Eight subsidized projects, and create a mortgage assistance pool for the City's home ownership program.

Housing Site Acquisition Program: Through neighborhood based nonprofit housing developers, this program provides Community Development Block Grant funding to acquire buildings for rehabilitation and sites for new construction. The result is dedicated housing production managed by the nonprofit organizations which keeps the housing affordable.

Tax Exempt Bonds for Housing: The City sells mortgage revenue bonds to provide lower cost home financing at below-market interest rates realized from state, income and federal sales price limitations. The City also issues bonds for low interest construction and permanent loans for rental housing projects. To qualify, the projects must rent twenty percent of the apartments to moderate income tenants for at least ten years.

Community Housing Rehabilitation Program: Low interest, fully amortized loans through this program are used to correct housing code violations and improve safety, accessibility, and energy efficiency of homes and rental units for low income residents. The loans are funded by Community Development Block Grants, packaged by neighborhood housing development corporations, and originated by Crocker National Bank.

Home Improvement Loan Program: Through this program, the City borrows funds by selling lower interest tax exempt bonds and lends the proceeds to low and moderate income owner-occupants for repairs and improvements to buildings of up to four units. The loans are combined with Community Development Block Grant funds and available at 3 and 9½ percent, depending on family income.

Neighborhood Housing Development Corporations: Neighborhood based nonprofit housing development corporations, operating in designated high need areas, implement the two primary housing programs funded by Community Development Block Grants: The Community Housing Rehabilitation Program and the Housing Site Acquisition Program. The development corporations (HDCs) also develop housing financed by Section 8, city bond issues, and other resources. To keep the housing permanently affordable the HDCs continue to own and manage property they have rehabilitated and built through the City's programs.

ECONOMIC DEVELOPMENT PROGRAMS

A wide variety of financing, technical assistance, and information programs available through MOHED helps businesses succeed in San Francisco. These include:

The Small Business Loan Fund: Offering term expansion capital to small businesses that create new jobs. The Fund provides loans at low, fixed rates to leverage private investment of commercial loans for equipment, leasehold improvement, relocation expenses, and working capital. Loan repayments "revolve" to finance other business projects.

Small Business Administration 502 and 503 Loans: Provide ninety percent of the financing — up to $1.5 million — for owner occupied commercial real estate. Fifteen to twenty five year terms are available for purchase, rehabilitation, or new construction. City "injection" loans, at below market rates, finance part of the project to conserve business working capital. The minimum goal of the program is to provide one job per $15,000 of SBA proceeds.

Industrial Development Bonds: These tax exempt revenue bonds are issued for up to $10 million, at favorable rates and terms, for industrial or commercial development. Bond rating is based on the developer's credit. The project must demonstrate significant public benefits, including job retention and creation.

Urban Development Action Grants: Through a nationally competitive program, cities are awarded federal funds to fill financing gaps for qualifying development projects. Grant awards are determined on the basis of the project's job impact, private leverage, feasibility, tax and other community benefits. The City then lends these funds to developers for land or building acquisition, construction, machinery, equipment, improvements, and other associated costs. Rates and terms are arranged according to the financing needs of the projects, and the applicant's ability to repay. Repayments are recycled to assist other economic development projects.

Employment Linkage Project: Addresses the employment needs of businesses and San Francisco residents by linking employers with the Private Industry Council (PIC), the City's job training and referral system. MOHED clients and many large downtown developments are asked to use PIC as a first source for new employees. Employers can be reimbursed for training costs and may receive tax credits.

Neighborhood Economic Development Organizations: MOHED contracts with nonprofit Neighborhood Economic Development Organizations (NEDOs) to provide loan packaging, management assistance, procurement and other services to help small businesses start, stabilize, and expand.

Mayor's Office of Housing and Economic Development

PROGRAM SUMMARY

Housing	Number of Loans/Grants	Number of Units	Public Funds	Private Dollars	Total Project Cost
Section Eight New Construction & Substantial Rehabilitation	18	1,834	$10,857,329	$125,706,456	$136,563,785
Office Housing Production Program	19	2,987	20,437,880	206,093,776	226,530,776
Housing Site Acquisition Program	39	2,472	14,456,063	118,466,577	132,922,640
Community Housing Rehabilitation Program	263	1,083	8,732,948	11,041,761	19,774,709
Home Improvement Loan Program	700	800	1,000,000	6,500,000	7,500,000
State Deferred Loan Program	13	484	1,000,000	7,411,192	8,411,192
Tax Exempt Bonds for Homeownership	650	650	5,000,000	62,611,000	67,611,000
Subtotal	**1,702**	**10,310**	**$61,483,340**	**$537,830,762**	**$599,314,102**

Economic Development	Number of Loans/Grants	Number of Jobs	Public Funds	Private Dollars	Total Project Cost
Small Business Loans	39	673	$ 1,681,823	$ 7,147,225	$ 8,829,048
Real Estate Financing SBA 502/503s	31	1,169	852,775	19,610,203	20,462,978
Industrial Development Bonds	2	240		9,599,500	9,599,500
Urban Development Action Grants	7	2,016	17,259,647	79,868,978	97,128,625
Subtotal	**79**	**4,098**	**$19,794,245**	**$116,225,906**	**$136,020,151**
TOTAL	**1,781**		**$81,277,585**	**$654,056,668**	**$735,334,253**

Mayor's Office of Housing and Economic Development

ORGANIZATION CHART

Mayor Dianne Feinstein

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Executive Director

Housing

Barbara Smith
Deputy Director

STAFF

Mattie Bates
Dimaggio Graham
Amalia Espinoza
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Leopoldo Rafael
Elise Rossen
Jim Shea
Avonee Smith
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PROGRAMS

Section 8
Site Acquisition
Surplus Public Land Disposition
Office Housing Production Program
Tax Exempt Bond Financing
Community Housing Rehab Program
Home Improvement Loan Program
Theatre Rehab Program

Economic Development

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PROGRAMS

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Small Business Loans
Urban Development Action Grants (UDAG)
Industrial Development Bonds (IDB)
Special Projects
Land Bank
Business Retention

Administration & Fiscal

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Mayor's Office of Housing and Economic Development

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